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Year-end result for YR 2002

Although the business circumstances have been severe, taking the initiative in the industry, we have continued the company-wide transformation. As a result, we achieved our target of ¥40,000 million ordinary profit, and the total dividend for the year will be ¥25 per share, which is a ¥5 increase compared with the previous year.

1.Main indicators **[Consolidated]**

		¥ M	
Sales Proceeds	1,620,359	vs 2001	44,595(- 2.7%)
Operating profit	36,400	"	8,347(+29.8%)
Ordinary profit	40,101	"	11,049(+38.0%)
Ordinary profit(CCS basis)	29,313	"	10,806(-26.9%)
Net income	18,665	"	16,055(+615.0%)

[Unconsolidated]

		¥ M	
Sales volume	39,827KKL	vs 2001	2,078KKL(-5.0%)
Sales proceeds	1,556,178	"	33,849(- 2.1%)
Operating profit	30,477	"	10,117(+49.7%)
Ordinary profit	36,400	"	11,592(+46.7%)
Ordinary profit(CCS basis)	25,610	"	10,265(-28.6%)
Net income	18,718	"	15,927(+570.6%)

CCS basis: Current Cost of Supply/calculation based on the cost excluding stock evaluation effects

2. Business Outline

(1)Domestic economy and industrial environment

The Japanese economy during the term has been sluggish due to the lowered personal consumption and shrinking private capital investment, a result of the more severe employment conditions and decline in personal income.

With respect to crude oil price, Dubai, which started \$19/bbl at the beginning of the year, has increased at the end of February and stayed at a high level reflecting the tense political situation in the Middle East. At the year end, the influence of the general strike in Venezuela and resulting crude production decline pushed prices up to \$28/bbl.

The foreign exchange rate, which started the year at ¥131/US\$, reached ¥115 in April, went down to ¥125 in October, and came up again to ¥119 at the year end because of higher tension over Iraq.

For domestic oil demand, in the motor vehicle fuel segment, gasoline demand has been steadily maintained, but Diesel demand has reduced as compared with last year.

Heating oil use has reduced as the demand for kerosene declined due to warmer temperatures in the 1st quarter. In the industrial fuel segment, fuel oil demand in general declined as a result of further delay in the recovery of business conditions, and fuel oil demand for electrical power generation for the year has also receded, although the re-operation of the thermal power plants substantially improved the demand after September.

Market prices of petroleum products have been deteriorating due to sluggish domestic demand and excess competition caused by self-serve SS construction. We could not fully incorporate the increasing procurement costs caused by the crude price hikes to the retail marketing price.

(2)Business activities

[Transformation of the Corporation]

Within above-mentioned circumstances, we have continued the company-wide transformation process implemented in 1996 which focuses on, pursuing greater customer satisfaction, transformation of our business portfolio, and structural cost reduction. We also focused on pursuing sustainable growth and reinforcing human resource competency and leadership.

[Marketing policy]

In marketing, we have expanded the investment in self-serve SS construction, and tried to pursue the customer focus and vitalization of our dealer relationship through the expansion of “Retail Renaissance”, a new guideline for marketing activities.

Other specific activities include introduction of a new high octane gasoline ‘PURA’ which restores the original performance of motor car engines through a new detergent. The introduction commenced in some parts of the metropolitan area in March, then expanded to Chubu in July and Kinki in November. Both improvement of customer satisfaction and increase of sales volume, were achieved.

In the automobile lubricants business, we have strengthened the sales promotion activities for the ‘Shell Helix’ brand. To further customer satisfaction, we established the ‘Helix Hot-Line’ for customer consultation.

As one of new services offered in SS, we have introduced ‘Shell Repair’ which will provide standardized metal plate coating (paint repair).

In addition, we redesigned SS staff uniforms, conducted sales promotions to increase the number of holders of our customer credit card, ‘X card’, and introduced the electronic invoice system for dealers (DEIS) for improving their administration efficiency.

[Manufacturing]

We have maintained a high rate of operation of Crude Distillation Units, and achieved further refining cost reduction. Our competitiveness has been strengthened by continuous improvement of high ratio production of value added products (whitening). With an eye on the environment, we have started to supply low sulphur diesel that contains less than 50 ppm, which will be supplied nationally in April 2004.

[Distribution rationalization and alliance with Japan Energy]

With respect to domestic distribution, we have made efforts to optimize the nationwide distribution network by applying joint management of facilities and depots, and

product exchange with other oil companies. In particular, joint order-taking activities, joint distribution and mutual accommodation of products with Japan Energy contributed further to distribution rationalization. In addition, night delivery to SS was commenced.

In procurement, we introduced an electronic tendering system by making use of the internet. We also started joint procurement of materials by delegating part of the procurement process to J S Initiative Yugen Kaisha, a joint venture established with Japan Energy.

[Health, Safety & Environment]

Environment protection, safety in operation, and workplace health have been improved by setting new targets and putting into place a monitoring system.

[HR policy]

We raised the target to establish a new HR system in order to maintain a high level of motivation for all employees. The target of developing a new evaluation system and development system were accomplished. We introduced the new remuneration system for retirement allowance and company pension in order to cope with the changing work life and values of employees. (Remuneration system: Amounts equivalent to retiring allowance and company pension contributions will be reflected in the monthly salary.)

3.Profit and loss

[Consolidated]

Although the products mix has improved, sales proceeds decreased by 2.7% to ¥1,620,300 million compared with the previous year due to a reduction of total sales volume. Operating profit was ¥36,400 million, which was increased by ¥8,300 million. Although the crude price hike could not fully be incorporated into the retail prices and sales margin deteriorated, the effect of inventory evaluation contributed to lower the cost of goods sold. Ordinary profit was improved by ¥11,000 million to ¥40,100 million compared with the YR 2001, a result of improved financial revenues and expenditures. If we exclude the effect of inventory evaluation, the ordinary profit on a CCS basis was ¥29,300 million, which was reduced by ¥10,800 million compared with the previous year level of ¥40,100 million.

In terms of special profit & loss, the loss of ¥7,500 million was appropriated, as the special profit was ¥5,000 million, generated by fixed assets disposal, but special loss relating to the fixed assets disposal and special repair fees of ¥4,500 million for the scheduled shut down repair of Showa Yokkaichi Sekiyu KK and Toa Sekiyu KK, was appropriated for this term.

As a result, the net profit after tax, local taxes and business taxes, with adjustments to corporate tax made by the tax effect accounting method, was ¥18,600 million.

[Unconsolidated]

Sales proceeds were ¥1,556,100 million (a decrease of 2.1% compared with the previous year). Operating profit was ¥30,400 million (an increase of 49.7%), and Ordinary profit was ¥36,400 million (an increase of 46.7%). The profit after tax was ¥18,700 million (an increase of 570.6%).

4.Dividend

We will pay an end-of-period dividend of ¥15 per share. The total dividend for the year will be ¥25 per share when added to the interim dividend of ¥10 per share, which is an increase of ¥5 per share compared with the total dividend of ¥20 for the previous year.

5.Estimation of YR2003

We are anticipating that our business conditions will remain difficult in the petroleum industry as demand deterioration continues due to the sluggish economy. Assuming unstable Middle East conditions, risks of crude price and marketing profit, we would like to achieve the following targets for the YR 2003.

(Premises: Crude oil price \$25.0/bbl, exchange rate ¥120/US\$)

Estimation [¥M]

[Consolidated basis]

Sales	1,650,000
Ordinary profit	30,000
Ordinary profit(ccs)	35,000
Net income	16,000

[Unconsolidated basis]

Sales	1,590,000
Ordinary profit	26,000
Ordinary profit(ccs)	31,000
Net income	15,000

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