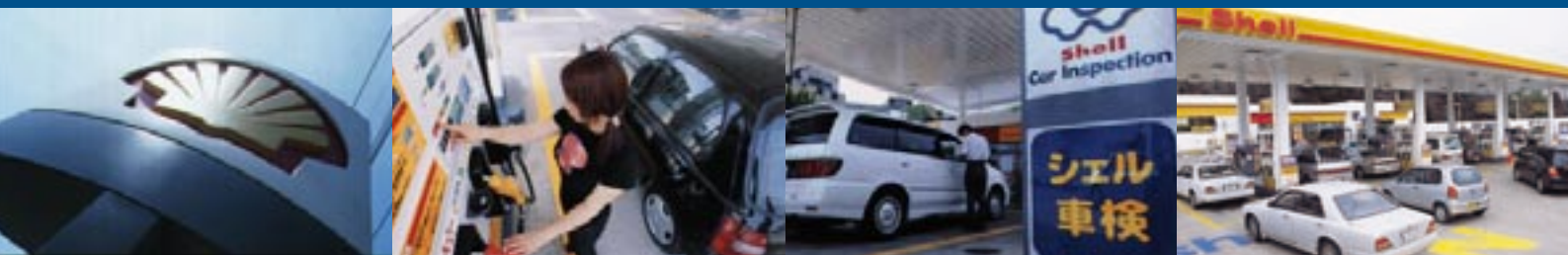


# Showa Shell Sekiyu K.K.

Annual Report 2001



Toward Sustainable Growth  
as a Leading Company



# RESULTS OF

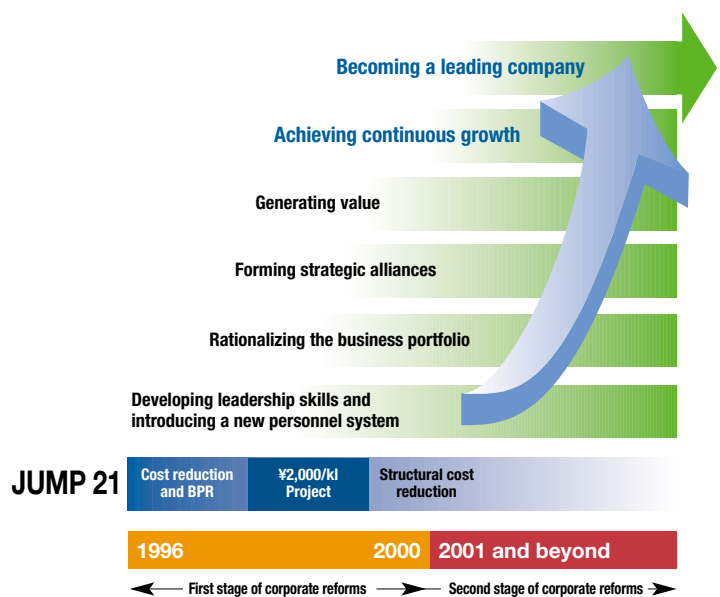


Showa Shell Sekiyu K.K. was formed as a result of the merger on equal terms in 1985 between Showa Oil Co., Ltd., established in 1931, and Shell Sekiyu K.K., which has operated in Japan for more than a century. Showa Shell has a unique corporate culture that features the best of both Japanese and Western management practices. While working to accurately grasp the needs of local customers, we are quickly and boldly taking on the challenges of the changing roles required of today's companies. This hybrid business style has enabled us to lead the Japanese oil industry in corporate reforms. As a member of the Royal Dutch Shell Group, a multinational corporation operating in more than 100 countries, the Showa Shell Group benefits from its shared technologies, expertise and data, and continues to move forward with industry-leading structural reforms in order to remain highly competitive in today's deregulated, international energy market.

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## Showa Shell Reform Roadmap



## Becoming a Leading Industry Participant

### ● Superior Quality in Our Businesses

We are working to ensure transparency in all our management activities, based on a customer-driven business model designed to achieve strong profitability and continuous growth.

### ● Employee Pride and Satisfaction

While enabling all employees to make full use of their skills and evaluating and rewarding their performance accordingly, we are setting forth new challenges to encourage personal growth.

### ● Continually Improving Share Prices

We are committed to generating steady capital gains and consistently paying high dividends.

### ● Being a Responsible Member of Society

The Company's approach towards health, safety and the environment (HSE) serves as a social benchmark, and the entire organization as well as each individual employee acts in a manner consistent with the Company's strong sense of corporate ethics.

# STRUCTURAL REFORM

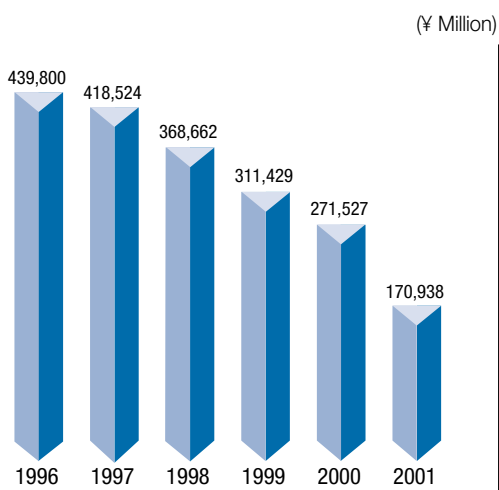


## Aiming for Continuous Growth — Toward the Second Stage of Corporate Reforms

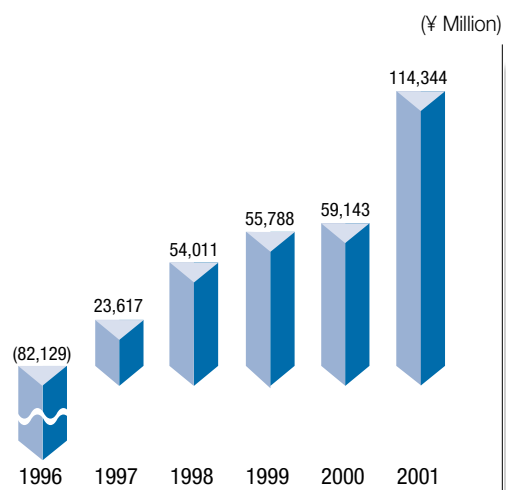
Since the start of deregulation of Japan's oil industry in 1996, Showa Shell has been at the forefront of corporate reforms, pursuing an ambitious program of restructuring designed to concentrate management resources on the downstream oil business and realize structural cost reductions. Between 1996 and 2001, total costs were reduced by more than ¥100,000 million and free cash flow improved from negative ¥82,129 million to ¥114,344 million. Furthermore, return on equity (ROE) on a current cost of supply basis\* amounted to 10.9 percent. Building upon this strong financial base, Showa Shell is moving forward into the next stage of corporate reforms.

\* Calculated using cost after elimination of effect of inventory valuation

Interest-bearing Debt (Consolidated)



Free Cash Flow (Consolidated)



# Toward Sustainable Growth as a Leading Company



In the second stage of corporate reforms, Showa Shell Sekiyu K.K. will work to further grow and maximize efficiency through the continued implementation of our basic strategies — customer-led value generation, rationalizing the business portfolio, and structural cost reductions. In addition, we are working to develop our human resources in order to build a more competitive organization. Through these measures, Showa Shell aims to be an industry-leading company, not in scale but as the first choice of our customers.

Haruyuki Niimi  
Chairman and CEO

Showa Shell was largely able to achieve its profit targets for 2001, as consolidated ordinary profit based on current cost of supply (CCS) increased 83 percent from the previous year to ¥40.1 billion, and ROE amounted to 10.9 percent.

## 2001 Results

### Higher Earnings and a Stronger Financial Structure

During 2001, the Showa Shell Group steadily moved forward with its program of corporate reforms initiated in 1996, resulting in qualitative improvements in the corporate structure. Making use of earnings forecasts and performance evaluations, Showa Shell was able to achieve its profit targets. Consolidated ordinary profit on a current cost of supply (CCS) basis increased 83 percent from the previous year to ¥40.1 billion, excluding the effect on inventory valuation caused by changes in crude oil prices, and ROE was 10.9 percent, excluding non-recurring factors such as the funding of pension liabilities. We have also steadily strengthened our financial structure. Free cash flow increased from ¥59.1 billion in the previous year to ¥114.3 billion, and interest-bearing debt was reduced from ¥271.5 billion in the previous year to ¥170.9 billion.

Although the market environment in the petroleum industry is as challenging as ever, due to these improvements in the financial structure, Showa Shell has been able to steadily increase its year-end dividend per share from ¥9.00 in 1999 and ¥15.00 in 2000 to ¥20.00 in 2001.

The success of our program of corporate reforms initiated in 1996 is reflected in the following achievements:

- Structural costs have been reduced by ¥9.9 billion compared to the previous year and by ¥104.5 billion compared to 1995 levels.
- The production ratio of highly profitable white oil products (gasoline and middle distillates) increased four percent year-on-year.
- Our share of the gasoline market increased three percent over the previous year to 13.2 percent.

### Rationalizing the Business Portfolio

As part of efforts to rationalize the business portfolio, which is one of our key management strategies, Showa Shell has merged its chemicals business with Shell Chemicals Japan Ltd. in order to focus management resources on the downstream oil business.

In addition, Showa Shell has established a joint venture with Japan Energy Corporation, which has already formulated joint shipping schedules for crude oil tankers and strategic

## Basic Strategy

From Offering Products and Services to Providing Total Solutions



We have proposed a series of sales strategies called Retail Renaissance 21 to provide dealers with a common orientation for our future direction. In 2002, we will work together with dealers to strengthen customer appeal and pursue value-added sales in order to further increase earnings.

product barter arrangements and commenced the consolidation of order centers and joint delivery operations nationwide on land and by sea.

To further enhance the competitiveness of refining operations, Showa Shell has initiated a technical research and development project designed to increase the manufacturing efficiency of high-value-added products by connecting Toa Oil Co., Ltd.'s Keihin Refinery and TonenGeneral Sekiyu K.K.'s Kawasaki Refinery via a pipeline.

In new business opportunities, Showa Shell participated in the launch of the Japan Oil Exchange (JOX), an Internet-based oil futures exchange for petroleum products, and is working to restructure and liquidate the assets of affiliated companies through such measures as the expansion of KK On Site Power, a joint venture in the distributed thermoelectricity market. At the same time, we are aggressively investing in fields with high growth potential and asset efficiency.

### Customer-led Value Generation

As dealers are our most important business partners, Showa Shell holds Dealers Meetings for dealers from across the country, where we propose a series of sales strategies called Retail Renaissance 21 to provide a common orientation for our future direction. In 2002, we will work together with dealers to strengthen customer appeal and pursue value-added sales in order to further increase earnings.

Furthermore, to strengthen relationships with customers and grow our business, we have established two organizations — the Customer Resource Center as well as the Lube Customer Service Center — to carry out marketing activities designed to expand our customer base and improve customer satisfaction.

### Future Initiatives

#### Toward Sustainable Growth

Beginning in 2001, Showa Shell moved into the second stage of its program of corporate reforms initiated in 1996. The objective of the second stage is to become a dynamic company capable of sustainable growth. To do so, our most important challenge is to ensure the leading level of profitability and growth in our current business areas.



**The objective of the second stage is to become a dynamic company capable of sustainable growth. To do so, our most important challenge is to ensure the leading level of profitability and growth in our current business areas.**

In the second stage of corporate reforms, Showa Shell Sekiyu K.K. will work to increase growth and maximize efficiency through the continued implementation of our basic strategies — customer-led value generation, rationalizing the business portfolio, and structural cost reductions.

In addition to efforts to improve efficiency and strengthen cost competitiveness by pursuing structural cost reductions and rationalizing the business portfolio, Showa Shell will seek out opportunities for growth, such as strategic alliances with third parties, with the intention of capitalizing on our strengths and overcoming our weaknesses.

To create added value, we will work to improve competitiveness by maximizing the profitability of our current operations, extending our strengths to new and related business areas, and changing our business concept from simply offering products and services to providing total solutions that meet customers' needs.

Showa Shell has identified three business fields with future growth potential: environment-related fields, energy supply and service station networks. In each of these areas, we will work to thoroughly understand customers' needs and provide solutions in order to expand our business.

#### **Building a Strong and Competitive Organization**

The next two or three years will be a critical period for the petroleum industry. In response to the quickening pace of globalization, we must bring together the wisdom and expertise not only of the Showa Shell Group but of the entire Royal Dutch Shell Group.

To this end, as Chairman and CEO, I will focus more closely on the fundamental elements of administration, including human resources development, while former Vice President John S. Mills will handle all day-to-day business affairs as President and COO.

During the second stage of corporate reforms, it will be important to implement strategies quickly and steadily. In addition to stronger management and organization, superior personnel are indispensable to achieving results. As a framework for keeping employees highly motivated, we will further revise the personnel system and expand our communication program with top management designed to strengthen employee leadership at all levels. As the overall authority in this area, during the year I will conduct a human resources development project aimed at younger and mid-level employees. By having employees divide into small groups to discuss issues and share opinions in order to develop problem-solving skills, we seek to discover staff members with the greatest promise for the future.

In addition, we are working to realize diversity by providing opportunities to all employees with the necessary talent and determination, regardless of gender or age.

#### **Becoming a Leading Company in the Industry**

Showa Shell aims to become an industry-leading company, not in scale but by being the first choice of our customers. Although we are only halfway through our program of corporate reforms to become a dynamic company capable of sustainable growth, we are extremely proud of the improvements we have achieved over the past six years, and believe we are on track to attain our objectives. Each and every employee is dedicated to meeting these challenges with enthusiasm every day.

We hope for your continued support and encouragement.

Haruyuki Niimi  
Chairman and CEO

## Focusing On Customers and Strengthening Profitability



**John S. Mills**  
President and COO

Over the past six years, Showa Shell has carried out a remarkable program of corporate reforms. This is a notable accomplishment even for the global Shell Group, and we are very proud of our efforts.

However, 2002 will undoubtedly be an extremely challenging year for Showa Shell. The Japanese economy remains sluggish, and our competitors are also aggressively working to improve their business performance. As we embark on the second stage of corporate reforms amid these difficult conditions, we recognize that it will be crucial to maximize our capabilities, pursue additional structural cost reductions, solidify relationships with customers and dealers, and expand our operations in order to achieve our commitments to stakeholders.

Furthermore, during 2002 we must build the necessary capabilities and business infrastructure not only to achieve our performance targets but also for sustainable growth. To do so, we must first optimize our current business areas while expanding the scope of core businesses in which we are extremely competitive.

Last year, we proposed a series of retail strategies entitled Retail Renaissance 21 to dealers, our most important business partners, to provide a common orientation for our future direction. During 2002, Showa Shell will work more closely with dealers to promote marketing activities. Our first such effort is Shell Pura environmentally friendly high-octane gasoline. Developed in response to the needs of customers, it has been extremely well received. Following its launch in the

Tokyo metropolitan area, the sales area was expanded to the Nagoya area, and we are investigating the possibility of launching Shell Pura nationwide in the future.

Over the long term, Showa Shell aims to expand its business activities to encompass an even wider range of energy products. We are currently studying the profitability and potential of new businesses such as gas-to-liquid (GTL), dispersed power, solar cells, and fuel cells. However, regardless of time frame, we believe that focusing on customers at all times is the key to success. To achieve sustainable growth, we must continue to satisfy customers by accurately gauging their needs and providing high-quality products and services that our competitors cannot match.

Showa Shell is working to gain market leadership by building a brand that customers choose first and support and maintaining our reputation as a company worthy of investment due to our sound financial structure and high operational efficiency. In laying this foundation, 2002 will be an extremely important year for Showa Shell. As both president and an employee of Showa Shell, I will spare no effort to achieve these goals. In doing so, I hope for the continued support of all of our stakeholders.

A handwritten signature in black ink that reads "John S. Mills". The signature is written in a cursive, slightly slanted style.

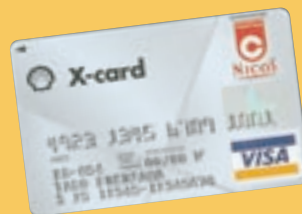
**John S. Mills**  
President and COO

# BUSINESS REVIEW

- Marketing**  We formulated Retail Renaissance 21 to strengthen our retail operations, and worked to build a service station network that is popular with customers and strengthen our car services business as a source of earnings.
- Refining**  In addition to increasing operating capacity and reducing refining costs at Group refineries, we improved the production ratio of high-value-added white oil products such as gasoline and kerosene.
- Distribution**  We further reduced distribution costs and expanded the ratio of barter activities through arrangements with various companies.
- Import**  We increased the percentage of crude oil procured from the Shell Group's trade network in response to continued production cutbacks by OPEC, and withdrew from the oil development business in order to concentrate management resources on the downstream oil business.
- R&D, New Business**  In the fuel cell-related business, we began building a system to produce hydrogen for fuel cells at service stations, and decided to participate in a government-run project to build a hydrogen station.
- Environmental Activities**  We continued to conduct soil pollution surveys at service stations using network environmental analysis methods developed by the Shell Group in order to ensure safety, and introduced environmentally friendly Shell Pura high-octane gasoline.

# MARKETING

## Developing powerful retail strategies to ensure customer satisfaction while maximizing market competitiveness and earning power



### Measures

#### Building a high-quality service station network

To create a powerful service station network, we focused on closing and consolidating uncompetitive service stations while investing in self-service stations, which are increasingly popular with customers, and building highly competitive flagship service stations. At the same time, we worked to expand the number of service stations operating under agent schemes, which are designed to boost retail expertise, and strengthen brand power by adopting site standards.

While the number of service stations decreased from 5,726 as of December 2000 to 5,474 as of December 2001, the number of self-service stations increased from 25 to 97.

#### Developing retail strategies to support dealers

Showa Shell invited dealers from around the country to the Dealers Meeting 2001, where dealers and Showa Shell representatives discussed our common orientation for our future direction. At the same time, we introduced a series of retail strategies called Retail Renaissance 21, which consists of new products and services to support sales activities at dealerships, such as expanding the Shell *shaken* automobile inspection service, updating the X-card, upgrading Shell Helix high-quality lubricant and launching a new high-octane gasoline. Showa Shell reaffirmed its intention to work more closely with dealers in order to succeed in the face of intense sales competition. Retail Renaissance 21 will become fully operational in 2002.

#### Aiming for customer satisfaction

In addition to the service station business, we established the Lube Customer Service Center to improve customer satisfaction in our lubricants business. Many customers have taken the opportunity to ask product-related questions, which has served to increase both the volume of orders and trust in our products.

### Initiatives and Future Outlook

#### Further improving the sales ratio of white oil products by strengthening retail sales

In 2001, efforts to unify manufacturing and distribution operations resulted in a 4 percent improvement in the sales ratio of high-value-added white oil products. During 2002, we will continue to expand sales of white oil products (gasoline and middle distillates) to various retail channels to further improve earnings.

#### Opening new self-service stations and strengthening brand power

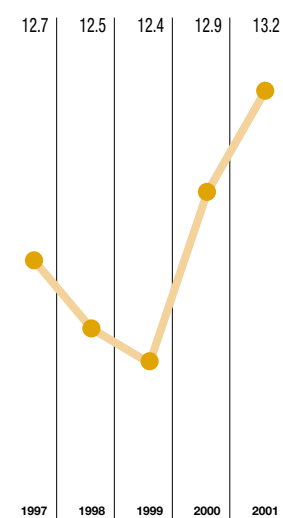
Showa Shell is stepping up investment in self-service stations, which are rapidly increasing in number nationwide as they gain customer support. In addition to changing existing full-service stations into self-service stations, we plan to open new self-service stations as well. The development of self-service stations will help to differentiate Showa Shell from our competitors by contributing to higher-quality retail operations.

#### Creating a sales support system for dealers and strengthening the focus on customers

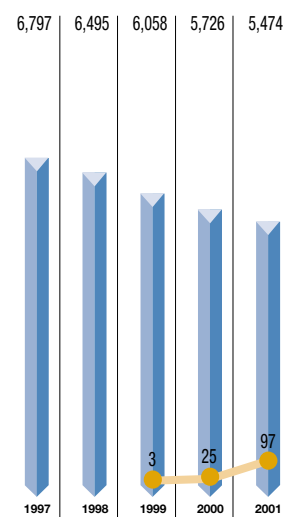
During 2002, we will push forward with the Retail Renaissance 21 series of retail strategies proposed in 2001. In addition to improvements to existing products such as Shell *shaken* automobile inspections, the X-card and Shell Helix, we will continue to introduce new products and measures such as Shell Pura high-octane gasoline, the new Shell Repair automotive service business, and new uniforms for service station attendants.

In addition, we are working to build a company-wide interface with dealers in order to develop a strong customer focus and provide total solutions for their diverse needs.

Gasoline Market Share (%)



Number of Service Stations



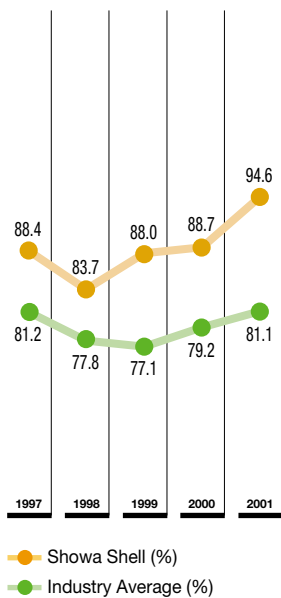
● Self-Service Stations

# REFINING

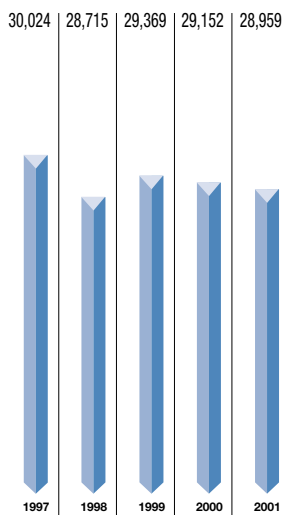
## Reducing costs by optimizing operations and forming alliances, while continuing to improve the production ratio of high-value-added products



Capacity Utilization Rate of Refineries (%)



Crude Oil Refined (Thousand kl)



### Measures

#### Increasing capacity utilization rate and reducing refining costs

To optimize refining capacity while reducing refining costs and improving the production ratio of high-value-added products, the refining capacity of the Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd. in Mie Prefecture was reduced by 50,000 barrels per day starting in April 2001. As a result, the refining capacity utilization rate of Group refineries rose significantly, from 88.7 percent in 2000 to 94.6 percent in 2001, exceeding the industry average of 81.1 percent by 13.5 percentage points.

The merging of refinery operations in the Kawasaki area with Toa Oil Co., Ltd. resulted in increased operating efficiency and substantial cost reductions. In April 2001, we began reviewing the details of our contract with Toa Oil and introduced a method of evaluating refinery performance that reflects market prices and cost benchmarks. As a result, we achieved approximately ¥8.0 billion in cost reductions during 2001, as compared to 1999 before the merger took effect.

#### Expanding production of high-value-added products

To make Group refineries internationally cost-competitive, in addition to cost-cutting measures we worked to increase the production ratio of premium white oil products, including gasoline and kerosene. This has resulted in closer coordination with the marketing division and is contributing steadily to results every year.

#### Alliance with Japan Energy

Showa Shell and Japan Energy Corporation established the joint venture JS Initiative, Ltd. (JSI), which initiated product barter trading in July 2001. In 2001, as a result of six months of barter trading and the synergy created by the partnership, we achieved approximately ¥600 million in cost

reductions. In addition, we made progress towards optimizing refining capacity by scaling back refining capacity at Showa Yokkaichi Sekiyu Co., Ltd. and closing Japan Energy's Chita Refinery.

### Initiatives and Future Outlook

#### Achieving more efficient operations

In 2002, Showa Shell aims to achieve further structural cost reductions by lowering personnel costs based on a personnel plan, decreasing fixed repair costs by receiving approval for long-term continuous operation, reducing maintenance costs and making use of centralized purchasing.

We are also working to strengthen our alliance with Japan Energy by expanding the barter trading operations of JSI, pursuing further synergies and introducing joint purchasing, while seeking partnerships in new fields in order to maximize the efficiency of our operations.

#### Making steady progress on the Keihin Project

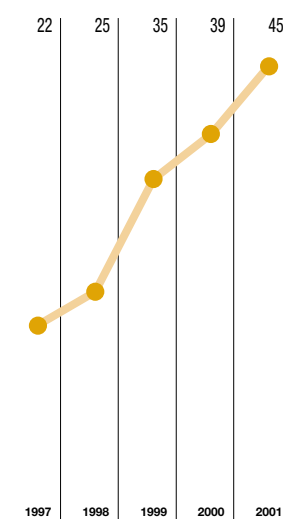
Showa Shell is participating in the Industrial Complex Renaissance Project, a consortium of companies from several different industries working to ensure the low-cost, stable supply of petroleum products by strengthening international competitiveness in the petroleum industry. We are centralizing the operation of our heavy crude oil refining facilities in the Kawasaki area with Toa Oil and TonenGeneral Sekiyu K.K. in order to develop technology to enable more efficient production of high-value-added products such as benzene. Construction of a research facility is progressing steadily, and is expected to be completed during 2002.

# DISTRIBUTION

## Optimizing the product supply chain by expanding the barter ratio and using larger-scale modes of transport



Barter Ratio (%)



### Measures

#### Expanding the barter ratio with other oil companies

To establish an optimum oil flow, Showa Shell is strengthening barter arrangements with primary distributors in order to reduce distribution costs. The ratio of bartered products increased from 39 percent of total sales volume in 2000 to approximately 45 percent in 2001. We have concluded a strategic alliance with the ExxonMobil Group, centered around barter arrangements with Japan Energy and TonenGeneral, to reduce distribution costs through the joint use of oil terminals and other measures.

Japan Oil Network Co., Ltd. is a joint venture responsible for improving the operational efficiency of oil terminals. The company presently operates nine oil terminals, and in 2001, the volume of oil handled increased 8 percent compared to the previous year. Japan Oil Network has received ISO 14001 certification and is committed to occupational safety and environmental activities.

#### Lowering costs by raising distribution efficiency

To improve the efficiency of petroleum shipping operations, Showa Shell has transferred its shipping business, previously handled by subsidiary Heiwa Kisen Kaisha, Ltd. and its group of companies, to Ueno Transtech Ltd.

At the same time, we are working to strengthen the competitiveness of our industry-leading ground transportation operations by increasing the capacity of our tank lorries from 26 to 28 kiloliters.

#### Strengthening our partnership with Japan Energy

Joint venture JLS Corporation commenced joint order-taking operations in April 2001. Joint delivery operations, which were initiated in Hokkaido in November 2000, were expanded to the Chugoku, Shikoku, and Kyushu areas starting in September 2001.

### Initiatives and Future Outlook

#### Expanding joint delivery operations nationwide and shifting to larger-scale modes of transport

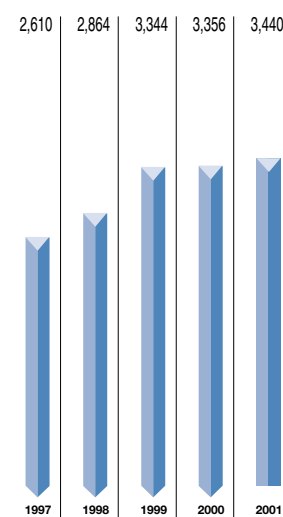
Order-taking operations, which were previously handled by Showa Shell's Tokyo order center, were transferred to JLS Corporation in April 2001, and we continue to work to improve the stability and efficiency of the order-taking process. Joint delivery operations with Japan Energy will be steadily expanded nationwide, and we also plan to jointly reevaluate the ground transportation delivery area and streamline the oil terminal network.

To enlarge the scale of our transportation operations, we will increase the proportion of 5,000-kiloliter vessels docking at ports that can accommodate large vessels and formulate an investment plan. In terms of ground transportation, we will work to increase the amount shipped using large-scale trailers.

#### Further expanding the barter ratio

To reinforce the effects of rationalization, we are continuing to develop a low-cost, efficient, optimal product supply chain by proceeding with joint distribution operations with Japan Energy and expanding barter arrangements with TonenGeneral and the Exxon Mobil Group.

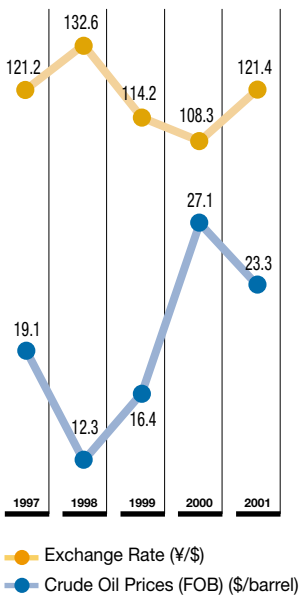
Average Size of Coastal Tankers (kl)



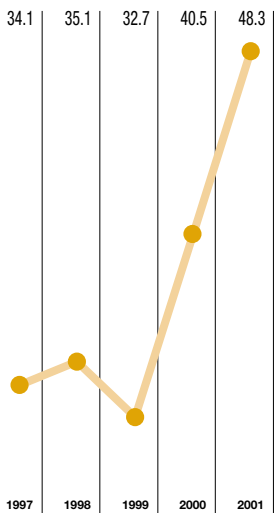
## Achieving an optimal mix of exporters for a flexible response to trends in the crude oil market



Crude Oil Prices and Exchange Rate



Crude Oil Procurement Rate Among the Shell Group (%)



### Measures

#### Achieving an optimal mix of exporters

Showa Shell utilizes an optimal mix of exporters in order to respond flexibly to trends in the petroleum market. Companies within the Shell Group supply the majority of Showa Shell's petroleum imports, and we also procure oil through direct transactions with oil producers in the Middle East, from our own oilfields, and from trading companies.

During 2001, the percentage of crude oil supplied by oil producers in the Middle East fell from 37.8 percent in the previous year to 33.3 percent due to the continued decline in OPEC production; the percentage of crude oil from Showa Shell oilfields decreased from 9.2 percent to 7.7 percent; and the percentage of crude oil purchased from trading companies decreased from 12.5 percent to 11.1 percent, whereas the percentage of crude oil supplied by companies within the Showa Shell Group increased from 40.5 percent to 48.3 percent. Starting in 2001, the Shell Group introduced the Crude Supply and Appraisal system to make the procurement process more systematic and cost-efficient.

With respect to shipping, we worked to improve transportation efficiency, implemented measures to prevent leakage, and chartered two new large-scale tankers with double-hull construction to ensure safety and protect the environment.

#### Responding to the shift to lighter crude oil

Due to economic considerations, Japanese refining companies have become increasingly dependent on the Middle East for oil. Showa Shell relies more heavily on Iran than other companies for oil imports. As Iranian oil is best processed at the second refining unit at the Yokkaichi Refinery, this has contributed to the construction of a state-of-the-art refining facility and the development of technology for more efficient processing of white oil. Furthermore, to respond to higher demand for light crude oil in 2001, Showa Shell increased

imports of light crude oil from Saudi Arabia.

#### Scaling back oil development projects

Aiming to rationalize our business portfolio and focus management resources on the downstream oil business, Showa Shell has not initiated any new upstream oilfield development projects since 1998. We are in the process of dissolving our two existing oil development projects, Shoseki Australia Oil Development and Showa Taranaki Oil Development.

### Initiatives and Future Outlook

#### Swift response to changes in the crude oil market and exchange rates

After the terrorist attacks in the U.S. in September 2001, a rapid decline in demand and the economic recession prompted concerns about oversupply, and the oil market plunged sharply. However, the oil market has undergone even greater changes since January 2002, with further cutbacks in production at OPEC, and the effects of the situations in Afghanistan and Israel, and skyrocketing oil prices.

It is difficult to predict whether the market will improve due to various factors such as the level of coordination among OPEC nations, production in non-OPEC nations, and the pace of the economic recovery in the U.S. and Asia. In response to changes in the oil market and exchange rates, Showa Shell is utilizing the Crude Supply and Appraisal system to respond quickly and flexibly while continuing to achieve a stable supply of low-cost imports.

#### Dissolution of Showa Shell Sekiyu Kaihatsu K.K.

As we are in the process of dissolving and liquidating existing oilfield development projects, Showa Shell plans to dissolve and liquidate Showa Shell Sekiyu Kaihatsu K.K. in 2002. Once all development companies have been liquidated, we do not plan to conduct any new oilfield development projects.

# R&D, NEW BUSINESS

## Further expanding efforts into next-generation energy sources and e-commerce



### Moving into fuel cell-related businesses

In order to popularize the use of fuel cells, for which expectations are high as a next-generation energy source, it will be important to develop technology for the manufacture and storage of hydrogen, which is used as fuel in fuel cells. Shell Hydrogen was established by the Shell Group to investigate the technical development and marketability of fuel cells, and is conducting various projects toward practical application.

Showa Shell is participating in a national fuel cell project headed by the Petroleum Energy Center (PEC), which has built a system for manufacturing hydrogen for fuel cells at service stations, using catalytic partial oxidation (CPO) hydrogen manufacturing technology developed by the Shell Group. We have also submitted an entry for a national project announced in the fiscal 2002 budget, and we are building a hydrogen station to ensure a stable supply of hydrogen.

### Expanding the power retail business

Showa Shell is working to expand its on-site power generation business through K.K. On Site Power, an energy solutions joint venture established with Marubeni Energy Corporation and ORIX Corporation.

Amid intensifying competition as power companies have rushed to enter the on-site power generation market, Showa Shell will combine its technological strengths with the marketing capabilities of ORIX and Marubeni Energy, placing top priority on developing new sales channels.

### Development of a next-generation solar battery

During 2001, as price competition intensified further and the market environment remained challenging, Showa Shell focused on the single crystal silicon solar cell as a premium product. We began marketing the product in the Tokyo metropolitan area in the second half of 2001, using the direct sales method recommended by Siemens and Shell Solar GmbH, with excellent results.

In early 2002, the Shell Group acquired the solar cell business of Siemens Solar Industries, based in Germany, and established the wholly-owned subsidiary Shell Solar B.V. In the future, we will work together with Shell Solar to formulate future-oriented business strategies, striving for optimum business development in the solar cell business.

### Fledgling e-business initiatives

Shell Japan Trading Ltd., one of Showa Shell's affiliates, was involved in the planning of eOSN, an online naphtha trading service established in September 2000, and the Japan Oil Exchange (JOX), an Internet-based oil futures exchange launched in July 2001. As the number of participants and trading volume steadily increase, these projects are building a solid position in the East Asian naphtha market and the Japanese oil futures market.

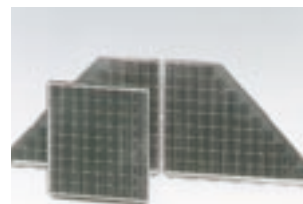
In addition, Showa Shell has established the Business Innovation Division to restructure our business processes in order to increase the efficiency of operations and add value company-wide. We have also expanded the range of application of the SAP integrated information system, which has already been partially adopted, in order to centralize data management and business processes company-wide. These activities have enabled us to improve operating efficiency and reduce costs, while spreading awareness of the need for continuing corporate reforms.

### High-potential environmental business: GTL (gas-to-liquid)

In the future, environmental issues will be an integral component of business activities. For Showa Shell it is not only a chance to contribute to environmental protection but also a valuable business opportunity. Beginning in 1999, we began conducting Network Environmental Risk Analysis (NERA) of soil contaminations at affiliated service stations, and are investigating ways to improve soil quality through biotechnology.

In addition, in November and December 2001, Showa Shell conducted regional test marketing of E-Kerosene, which was well-supported among consumers. E-Kerosene emits virtually no fumes or odor because it is manufactured from GTL (gas-to-liquid), the Shell Group's natural gas liquid brand, which contains virtually no sulfur or aromatic content. In the future, we will work to develop and commercialize applications for GTL products, such as fuel for on-site power generation, in accordance with environmental regulations, and GTL light oil for diesel vehicles, as non-gas regulations become stricter.

Solar battery system for residential use



The Jusco Sagamihara store, where thermal energy storage (TES) has been introduced, and its co-generation system



# ENVIRONMENTAL ACTIVITIES

## Engaging in a wide range of activities from environmental protection initiatives to eco-business and promotional activities



### In-house HSE management system

Acting in concert with Shell Group companies all over the world, Showa Shell has introduced a comprehensive health, safety and environment (HSE) management system designed to pursue continuous improvements in health, safety and environmental protection. This system uses the Shell Group's risk analysis methods and Hazard and Effects Management Process (HEMP) to reduce risks related to health, safety and the environment.

All Showa Shell refineries, Japan Oil Network oil terminals, SVC Tokyo, and the Hekinan LPG base have acquired ISO 14001 certification for environmental management systems.

At present, we are currently preparing to publish our *Health, Safety and Environment Report* and

disclose the results of environmental accounting.

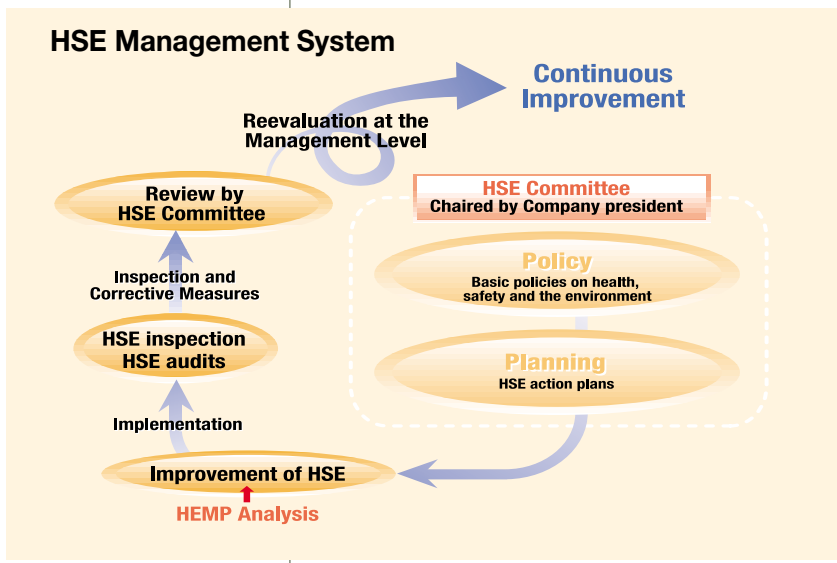
### Nationwide expansion of NERA for risk management of service stations

Using the Network Environmental Risk Analysis (NERA) method developed by the Shell Group, Showa Shell conducts regular soil contamination studies at approximately 5,000 affiliated service stations. During 2001, we also regularly replaced the underground storage tanks and conducted water analysis studies at the 50 service stations designated as high-risk, and no signs of pollution were detected.

During 2002, Showa Shell's continuing risk management activities have included soil pollution studies at affiliated service stations in March and preventative construction work such as the replacement of underground storage tanks. We will also work to publicize these activities, such as through the creation of an evaluation report for dealer-owned service stations.

### Showa Shell Sekiyu Foundation for Promotion of Environmental Research

The Showa Shell Sekiyu Foundation for Promotion of Environmental Research was established with the goal of contributing to the development of society and the advancement of science by supporting academic research on environmental issues in order to maintain a stable, long-term relationship between





human beings and the natural environment. Each

year, the foundation receives hundreds of applications from universities and research institutions for the grants it awards for fundamental, comprehensive research in the natural and social sciences.

In addition, since 1970, Showa Shell has published *Quality*, our in-house environmental newsletter, which has been commended as a high-quality opinion magazine.

#### Supply of green fuel

In the Tokyo metropolitan area, air pollution caused by exhaust fumes from diesel engines has become a significant problem. Showa Shell is working to differentiate itself from other companies and improve brand power by continuing to lead the industry in the provision of environmentally friendly "green" fuel. For example, we were the first company in Tokyo to offer low-sulfur fuel (sulfur content less than 50 ppm). In 2001, Showa Shell supplied approximately 2,000 kiloliters a month, primarily to private shipping companies, for use in Tokyo metropolitan buses, Airport Transport Service's limousine buses to Narita Airport, and city buses in Ichikawa, Chiba Prefecture. In 2002, we plan to conduct test runs at existing refining facilities in order to build a network capable of supplying 4,000 kiloliters of low-sulfur fuel a month.

Furthermore, in cooperation with the Shell Group, we are conducting research into GTL fuel, which



Test runs are being carried out at Group refineries to build a supply system for low-sulfur fuel.

has virtually no sulfur content and is attracting attention as an environmentally friendly alternative to diesel fuel, and developing a hydrogen business for fuel cells.

In our gasoline business, we have already introduced benzene extraction facilities at Group refineries, and are working to reduce benzene concentration to below accepted limits. In March 2002, Showa Shell launched Shell Pura, a new environmentally friendly high-octane gasoline developed by the Shell Group that maximizes engine performance by keeping the engine clean while resulting in significant reductions in emissions of hazardous substances.



Benzene extraction facilities at Group refineries support Showa Shell's production of low-benzene gasoline.

## Nine-Year Summary of Selected Financial Data

	2001	2000	1999
<b>Consolidated</b>			
Net sales .....	¥1,664,954	¥1,639,475	¥1,365,478
Cost of sales .....	1,513,626	1,477,361	1,218,732
Gross profit .....	151,328	162,113	146,746
Selling, general and administrative expenses .....	123,274	124,442	133,692
Operating profit .....	28,053	37,670	13,054
Ordinary profit .....	29,052	38,913	12,191
Net income .....	2,610	12,499	1,828
Total assets .....	909,902	1,002,146	974,916
Total shareholders' equity .....	212,168	216,349	197,563
Net income per share (yen) .....	¥ 6.95	¥ 33.19	¥ 4.85
Shareholders' equity per share (yen) .....	565.36	574.77	524.25
Return on sales (operating profit basis) (%) .....	1.7	2.3	1.0
Return on sales (net income basis) (%) .....	0.2	0.8	0.1
Return on assets (%) .....	0.3	1.2	0.2
Return on equity (%) .....	1.2	6.0	0.9
Equity ratio (%) .....	23.3	21.6	20.3
Number of shares outstanding at end of term (thousand shares) .....	375,281	376,409	376,850
<b>Non-Consolidated</b>			
Net sales .....	¥1,590,027	¥1,566,431	¥1,290,794
Cost of sales .....	1,468,963	1,430,759	1,170,391
Gross profit .....	121,064	135,672	120,403
Selling, general and administrative expenses .....	100,703	103,115	114,735
Operating profit .....	20,360	32,556	5,668
Ordinary profit .....	24,808	37,684	12,058
Net income .....	2,791	9,016	3,763
Total assets .....	802,248	831,645	796,494
Total shareholders' equity .....	200,154	204,085	189,812
Net income per share (yen) .....	¥ 7.43	¥ 23.93	¥ 9.99
Shareholders' equity per share (yen) .....	533.35	541.55	503.68
Return on sales (operating profit basis) (%) .....	1.3	2.1	0.4
Return on sales (net income basis) (%) .....	0.2	0.6	0.3
Return on assets (%) .....	0.3	1.1	0.5
Return on equity (%) .....	1.4	4.6	2.0
Equity ratio (%) .....	24.9	24.5	23.8
Number of shares outstanding at end of term (thousand shares) .....	375,281	376,409	376,850

Millions of yen					
1998	1997	1996	1995	1994	1993
¥1,324,752	¥1,588,067	¥1,600,067	¥1,441,176	¥1,515,313	¥1,516,206
1,171,788	1,408,789	1,404,723	1,225,954	1,293,874	1,282,479
152,964	179,278	195,344	215,222	221,439	233,727
144,446	164,434	174,646	186,383	171,459	167,061
8,518	14,844	20,698	28,839	49,980	66,665
7,223	12,901	15,225	21,993	26,920	36,770
1,999	6,387	6,054	13,802	13,670	7,792
992,282	1,049,931	1,071,464	1,001,676	884,663	859,706
199,711	201,479	198,536	195,926	181,607	170,943
¥ 5.31	¥ 16.95	¥ 16.06	¥ 39.94	¥ 41.72	¥ 23.78
529.95	534.64	526.84	519.93	554.20	521.65
0.6	0.9	1.3	2.0	3.3	4.4
0.2	0.4	0.4	1.0	0.9	0.5
0.2	0.6	0.6	1.5	1.6	0.9
1.0	3.2	3.1	7.3	7.8	4.6
20.1	19.2	18.5	19.6	20.5	19.9
376,850	376,850	376,850	376,850	327,696	327,696
¥1,249,616	¥1,495,688	¥1,492,428	¥1,354,414	¥1,400,551	¥1,447,701
1,123,146	1,339,118	1,323,613	1,166,324	1,197,752	1,232,224
126,469	156,570	168,814	188,089	202,798	215,477
123,605	146,067	156,447	165,992	158,201	154,014
2,864	10,503	12,367	22,096	44,597	61,463
8,266	12,382	12,178	19,087	24,571	36,683
4,106	7,014	4,810	9,980	12,684	9,028
779,626	827,913	837,178	790,787	753,615	762,254
189,440	188,725	185,135	183,753	177,123	167,388
¥ 10.90	¥ 18.61	¥ 12.77	¥ 28.88	¥ 38.71	¥ 27.55
502.69	500.80	491.27	487.60	540.51	510.80
0.2	0.7	0.8	1.6	3.2	4.2
0.3	0.5	0.3	0.7	0.9	0.6
0.5	0.8	0.6	1.3	1.7	1.2
2.2	3.8	2.6	5.5	7.4	5.5
24.3	22.8	22.1	23.2	23.5	22.0
376,850	376,850	376,850	376,850	327,696	327,696

## Financial Strategy

Showa Shell uses assets efficiently by divesting inefficient assets and minimizing working capital. The Company's financial policies are geared towards maximizing earnings and cash flow while repaying interest-bearing liabilities.

During the current year, we will continue to follow these basic strategies while rigorously examining capital investments and investigating the economic viability and growth potential of new businesses.

## Profitability

During 2001, the Japanese economy slid further into recession as private capital investment and corporate earnings continued to decline and personal consumption was unable to regain strength due to a lack of improvement in employment and wages.

Under these challenging economic conditions, the Showa Shell Group worked to achieve a reduction in structural costs, rationalize the business portfolio, and pursue customer-led value generation while maximizing profitability.

As a result, although total sales volume remained largely unchanged from the previous year, consolidated net sales increased 1.6 percent to ¥1,664.9 billion due to higher sales volume for gasoline and kerosene.

Operating profit fell 25.5 percent to ¥28.0 billion, and ordinary profit declined 25.3 percent to ¥29.0 billion compared with the previous year. However, excluding the effect of inventory valuation, ordinary profit on a current cost of supply (CCS) basis rose ¥18.3 billion to ¥40.1 billion. Factors included higher sales of more profitable petroleum products, and a reduction in refining costs and selling, general and administrative expenses due to rationalization and improved efficiency, as well as contributions by consolidated subsidiaries and affiliates. The Company recorded a special loss of ¥25.0 billion due to the lump-sum amortization of a ¥30.6 billion difference arising from the application of revised accounting standards for retirement benefits in 2001, as well as a valuation loss on listed company stock due to the adoption of mark-to-market accounting. As a result, net income fell 79.1 percent to ¥2.6 billion. Free cash flow, comprising cash flow provided by operating activities and investing activities, totaled ¥114.3 billion. Total borrowings at the end of the year were ¥170.9 billion, as the Showa Shell Group reduced its dependence on interest-bearing liabilities, thus further strengthening its financial structure.

Segment results were as follows:

### Petroleum

Sales increased 1.6 percent to ¥1,648.2 billion and operating profit totaled ¥24.7 billion, compared to ¥34.6 billion the previous year. Although operating profit fell by ¥9.9 billion, if the effect of inventory valuation were excluded, operating profit would have increased by ¥18.3 billion to ¥35.8 billion, compared to ¥17.5 billion the previous year. Factors included higher sales of more profitable petroleum products, and a reduction in refining costs and selling, general and administrative expenses due to rationalization and improved efficiency, as well as contributions by consolidated subsidiaries and affiliates.

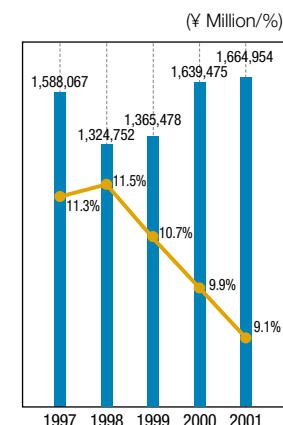
### Real Estate

Net sales rose 3.8 percent to ¥4.8 billion as rental income increased due to an influx of new tenants. Operating profit increased 6.0 percent to ¥2.8 billion due to efforts to reduce expenses and raise operating efficiency.

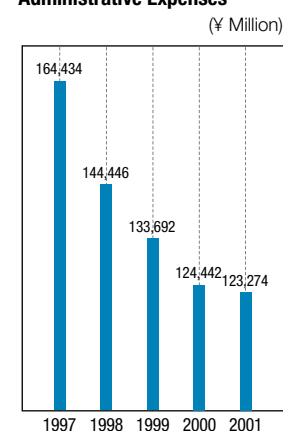
### Other

Net sales totaled ¥18.7 billion, as the challenging operating environment in the petroleum industry led to contraction in sales of solar batteries, sales and leasing of automobile-related products, the

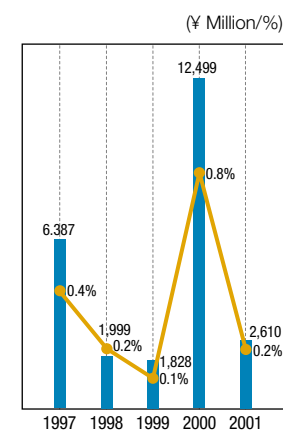
## Net Sales/Gross Profit Margin



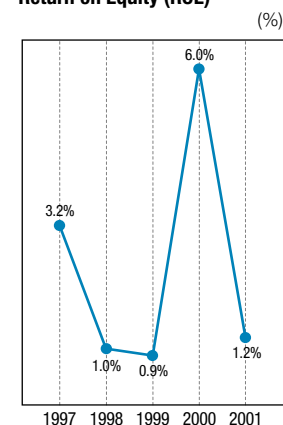
## Selling, General and Administrative Expenses



## Net Income/Return on Sales



## Return on Equity (ROE)



construction business and other businesses. Operating profit totaled ¥0.6 billion as a result of efforts to streamline operations and increase efficiency in all areas.

### Assets and Liabilities

Total assets decreased ¥92.2 billion year-on-year to ¥909.9 billion. Current assets decreased ¥51.2 billion to ¥386.7 billion. Primary factors included a decrease in notes and accounts receivable due to the effect lower crude oil prices had on sales of crude oil and jointly marketed products. In addition, inventories decreased due to the change in valuation methods.

Current liabilities fell ¥62.1 billion to ¥508.7 billion, due to decreases in notes and accounts payable and short-term borrowings.

Fixed assets decreased ¥41.0 billion to ¥523.1 billion. Factors included a decrease in property, plant and equipment due to a decrease in depreciation and sales of land. Long-term liabilities decreased ¥25.6 billion to ¥185.0 billion due to the repayment of long-term borrowings. Interest-bearing liabilities decreased ¥100.5 billion from the previous year to ¥170.9 billion.

Shareholders' equity decreased ¥4.1 billion to ¥212.1 billion, and the ratio of shareholder's equity to total assets improved 1.7 percentage points to 23.3 percent. Return on average total shareholders' equity (ROE) decreased 4.8 percentage points to 1.2 percent. ROE on a CCS basis was 10.9 percent.

### Cash Flow

Cash flow provided by operating activities increased ¥37.0 billion to ¥83.2 billion. The primary reason was an increase in the positive effect on cash flow of provisions to the retirement benefits account. Other contributing factors were a drop in prices of crude oil and petroleum products and a decrease in accounts receivable and inventories due to efforts to accelerate the collections process.

Cash flow provided by investing activities increased ¥18.1 billion to ¥31.0 billion. This was supported by sales of property, plant and equipment in order to improve asset efficiency and reduce interest-bearing liabilities, as well as the redemption of corporate bonds and the sale of investment securities.

Cash flow used in financing activities increased ¥58.7 billion to ¥106.9 billion. The Company actively worked to reduce interest-bearing liabilities in order to strengthen the financial structure.

Cash and cash equivalents as of December 31, 2001 increased by ¥7.6 billion year-on-year to ¥25.0 billion.

### Per Share Information

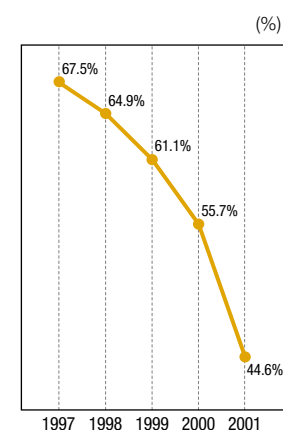
For the year ended December 2001, net income per share decreased from ¥33.19 to ¥6.95, and shareholders' equity per share decreased from ¥574.77 to ¥565.36.

### Dividend Policy

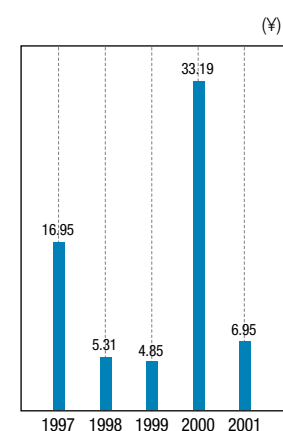
In distributing profits, Showa Shell's fundamental policy is to provide stable dividends, based on the considerations of profitability, the need to strengthen the Company's financial base, and trends in financial markets.

During 2001, the Company achieved a substantial improvement in ordinary profit, excluding the effect of cost of sales on inventory, and continued to generate abundant free cash flow, resulting in a stronger financial structure. Consequently, the Company was able to offer a year-end dividend of ¥14.00 per share. Combined with the interim dividend of ¥6.00 per share, this resulted in a total annual cash dividend of ¥20.00 yen per share, compared to ¥15.00 per share in 2000. The payout ratio was 269.2 percent, and dividend return calculated using shareholders' equity was 3.7 percent. The Company plans to deploy retained earnings to fund strategic capital investments.

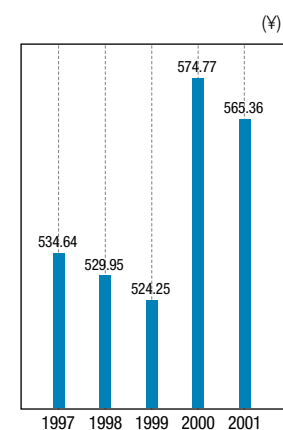
### Gearing Ratio



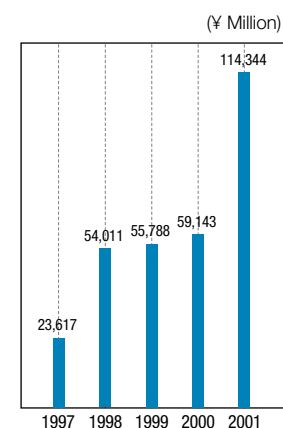
### Net Income per Share



### Shareholders' Equity per Share



### Free Cash Flow



# Consolidated Balance Sheets

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries

As of December 31, 2001 and 2000

	Millions of yen	
	2001	2000
<b>Assets</b>		
Current assets:		
Cash and bank deposits .....	¥ 25,666	¥ 18,055
Notes and accounts receivable .....	218,630	258,216
Marketable securities .....	—	1
Inventories .....	116,412	140,884
Other current assets .....	26,001	20,768
Total current assets .....	<b>386,710</b>	437,924
Fixed assets:		
Property, plant and equipment:		
Buildings, structures and tanks .....	154,256	167,343
Machinery and equipment .....	122,363	132,903
Land .....	157,606	160,688
Other .....	5,206	5,883
Total property, plant and equipment .....	<b>439,434</b>	466,819
Intangible fixed assets .....	14,556	14,964
Investments and other assets:		
Investment securities .....	24,944	46,602
Long-term loans .....	3,093	5,986
Other .....	41,162	13,751
Total investments and other assets .....	<b>69,200</b>	82,437
Total fixed assets .....	<b>523,191</b>	564,221
Total assets .....	<b>¥909,902</b>	¥1,002,146
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable .....	¥197,912	¥ 212,729
Short-term borrowings .....	45,212	91,449
Commercial paper .....	32,000	31,000
Accrued expenses .....	157,056	164,986
Other current liabilities .....	76,562	70,756
Total current liabilities .....	<b>508,742</b>	570,920
Long-term liabilities:		
Bonds .....	30,000	40,000
Long-term borrowings .....	53,817	94,078
Provision for retirement allowances .....	—	51,516
Termination and retirement profits .....	79,194	—
Special provision for maintenance .....	9,659	9,409
Other long-term liabilities .....	12,347	15,584
Total long-term liabilities .....	<b>185,019</b>	210,690
Total liabilities .....	<b>693,761</b>	781,611
Minority interests .....	3,971	4,185
<b>Shareholders' equity</b>		
Capital stock .....	34,197	34,197
Capital surplus .....	21,929	21,929
Consolidated retained earnings .....	157,088	160,418
Treasury stock .....	(1,046)	(196)
Total shareholders' equity .....	<b>212,168</b>	216,349
Total liabilities and shareholders' equity .....	<b>¥909,902</b>	¥1,002,146

\*All figures have been rounded to the nearest million.

## Consolidated Statements of Income

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries

Years ended December 31, 2001 and 2000

	Millions of yen	
	2001	2000
Net sales .....	<b>¥1,664,954</b>	¥1,639,475
Cost of sales .....	<b>1,513,626</b>	1,477,361
Gross profit .....	<b>151,328</b>	162,113
Selling, general and administrative expenses.....	<b>123,274</b>	124,442
Operating profit.....	<b>28,053</b>	37,670
Non-operating income (expenses):		
Interest and dividend income.....	<b>(3,740)</b>	(4,988)
Exchange profit (loss).....	<b>3,905</b>	5,052
Equity in earnings of unconsolidated subsidiaries and affiliates, etc. ....	<b>1,108</b>	62
Miscellaneous income (loss) .....	<b>(275)</b>	1,117
Sub-total.....	<b>999</b>	1,243
Ordinary profit .....	<b>29,052</b>	38,913
Special profit (loss).....	<b>(25,054)</b>	(15,151)
Income before income taxes .....	<b>3,998</b>	23,763
Corporate tax, inhabitant's tax and business tax .....	<b>24,449</b>	11,003
Corporate tax adjustments .....	<b>(22,956)</b>	242
Minority interests in net income.....	<b>—</b>	(17)
Minority interests in net loss .....	<b>105</b>	—
Net income .....	<b>¥ 2,610</b>	¥ 12,499

\*All figures have been rounded to the nearest million.

## Consolidated Statements of Shareholders' Equity

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries

Years ended December 31, 2001 and 2000

	Millions of yen	
	2001	2000
Capital stock:		
Balance at beginning of period.....	<b>¥ 34,197</b>	¥ 34,197
Balance at end of period.....	<b>¥ 34,197</b>	¥ 34,197
Capital reserve:		
Balance at beginning of period.....	<b>¥ 21,929</b>	¥ 21,929
Balance at end of period.....	<b>¥ 21,929</b>	¥ 21,929
Consolidated retained earnings:		
Balance at beginning of period .....	<b>¥160,418</b>	¥151,981
Net income.....	<b>2,610</b>	12,499
Increase resulting from increase in consolidated subsidiaries .....	<b>75</b>	34
Increase resulting from increase in affiliates accounted for by the equity method .....	<b>—</b>	466
Increase resulting from elimination of affiliates accounted for by the equity method .....	<b>—</b>	200
Decrease resulting from increase in consolidated subsidiaries.....	<b>—</b>	602
Decrease resulting from elimination of subsidiaries from consolidation .....	<b>476</b>	—
Decrease resulting from increase in companies accounted for by the equity method .....	<b>—</b>	9
Cash dividends .....	<b>5,639</b>	4,142
Bonuses to directors and auditors.....	<b>42</b>	9
Balance at end of period .....	<b>¥157,088</b>	¥160,418

\*All figures have been rounded to the nearest million.

# Consolidated Statements of Cash Flows

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries

Year ended December 31, 2001 and 2000

	Millions of yen	
	2001	2000
Cash flow provided by operating activities:		
Net income before taxes and others .....	¥ 3,998	¥ 23,763
Depreciation.....	28,598	29,006
Loss on disposal of property, plant and equipment.....	4,671	11,196
Gain on sale of property, plant and equipment .....	(14,847)	(12,110)
Loss on devaluation of investment securities.....	1,779	9,140
(Decrease) increase in investment loss reserve.....	(11,124)	841
(Decrease) increase in bad debts reserve.....	(1,632)	2,285
Decrease in the provision for retirement allowances.....	(51,461)	(297)
Increase in termination and retirement benefits .....	79,194	—
Interest and dividends received.....	(1,178)	(1,792)
Interest paid .....	5,359	6,781
Decrease (increase) in account receivables .....	39,391	(20,546)
Decrease (increase) in inventories .....	24,527	(22,691)
(Decrease) increase in account payables .....	(20,670)	36,989
Other .....	10,887	4,781
Subtotal .....	97,495	67,349
Interest and dividends received.....	1,132	1,865
Interest paid .....	(6,483)	(6,027)
Corporate and other taxes paid.....	(8,866)	(16,984)
Cash flow provided by operating activities.....	83,277	46,202
Cash flow provided by investing activities:		
Payments to time deposits.....	(202)	(138)
Receipts from time deposits.....	380	260
Payment for purchases of property, plant and equipment.....	(7,690)	(6,172)
Proceeds from sale of marketable securities .....	21,746	20,346
Payment for purchases of investment securities.....	(258)	(732)
Proceeds from sale of investment securities.....	3,184	948
Proceeds from redemption of bond .....	15,118	—
Net increase (decrease) in short-term loans.....	833	(160)
Payment of long-term loans .....	(933)	(1,447)
Proceeds from the collection of long-term loans .....	1,159	1,453
Other .....	(2,270)	(1,417)
Cash flow provided by investing activities.....	31,067	12,941
Cash flow provided by (used in) financing activities:		
Decrease in short-term bank borrowing.....	(26,655)	(9,423)
Decrease (increase) in commercial paper.....	1,000	(4,000)
Proceeds from issuance of long-term borrowing .....	600	9,766
Repayment of long-term borrowing.....	(60,350)	(38,910)
Increase in cash due to merger of consolidated subsidiaries .....	(15,000)	—
Payment for retirement of stock .....	—	(1,233)
Payment for purchases of treasury stock.....	(885)	(195)
Dividends paid to minority interests .....	(102)	(111)
Dividends paid .....	(5,639)	(4,142)
Other .....	35	(0)
Cash flow used in financing activities.....	(106,997)	(48,251)
Net increase in cash and cash equivalents.....	7,347	10,892
Cash and cash equivalents at the beginning of year .....	17,411	6,027
Increase in cash due to addition of consolidated subsidiaries.....	361	515
Increase in cash due to merger of consolidated subsidiaries .....	22	—
Decrease in cash due to exclusion of consolidated subsidiaries .....	(61)	(23)
Cash and cash equivalents at the end of year.....	25,081	17,411

# Notes to Consolidated Financial Statements

## Basis of Presenting Consolidated Financial Statements

### 1. Consolidation

Consolidated subsidiaries (23 companies)	Showa Shell Sekiyu Kaihatsu K.K. Tokyo Shell Pack K.K. Enax K.K. Nakagawa Oil Co., Ltd. K.K. Shinyo Sekiyu Shoseki Overseas Oil Development Co., Ltd. Heiwa Kisen Kaisha, Ltd. Shoseki Kako K.K. Nippon Grease Co., Ltd.	Petro Star Kansai K.K. Shoseki Shoji K.K. Chuo Shell Sekiyu Hanbai K.K. Sailis Co., Ltd. Kakubari Oil Co., Ltd. K.K. Kitamoto Showa Tesco K.K.
Showa Yokkaichi Sekiyu Co., Ltd. East Ogishima Oil Terminal K.K. Showa Shell Senpaku K.K. K.K. Rising Sun Showa Gas K.K. Shoseki Engineering & Construction Co., Ltd.		
Newly added consolidated subsidiaries (2 companies)	Shoseki Home Gas K.K. (Included in consolidation due to their increased importance)	K.K. Shinyo Sekiyu
Subsidiaries eliminated from consolidation (1 company)	Shoseki Kasei K.K. (Excluded from consolidation because it is no longer material due to transfer of sales)	
Major non-consolidated subsidiaries and affiliates	Axhum Inc. Showa Solar Energy K.K.	K.K. Hayawa

### 2. Equity Method

Affiliates accounted for by the equity method (14 companies)	Osaka Shell Pack K.K. Shell Tokuhatsu K.K. Anzen Sekiyu K.K. Japan Oil Network Co., Ltd. Mieseki Shoji K.K. Nishigawa Kouyu Co., Ltd. Joyo Shell Sekiyu Hanbai K.K. Kotohira Oil Co., Ltd.	Eliminated affiliates accounted for by the equity method (1 company) K.K. Shinyo Sekiyu (Became a consolidated subsidiary)
Toa Oil Co., Ltd. Seibu Oil Co., Ltd. Daiya Shoseki K.K. Shell Sekiyu K.K., Osaka Sales Office Central Oil Gas Co., Ltd. Niigata Joint Oil Stockpiling Co., Ltd.		Major affiliates not accounted for by the equity method Kyokuyo Co., Ltd. Daiya Fuel Trading Co., Ltd.

### 3. Accounting Principles

#### 1) Standards and methods for valuing principal assets

Marketable Securities:

Held-to-maturity debt securities	.....	Amortized cost method
Other securities	Market price available	..... Cost using the moving average method
	Market price not available	..... Cost using the moving average method

Derivatives: Fair value method

Inventories: Stated principally at cost using the weighted-average method

#### 2) Depreciation methods for major assets

Tangible fixed assets: Depreciated principally using the straight-line method

Major oil refining facilities at Showa Shell's Kawasaki Refinery and Showa Yokkaichi Sekiyu's Yokkaichi Refinery are depreciated over their estimated useful lives (20 years).

Intangible fixed assets: Depreciated using the straight-line method

Software for in-house use is depreciated using the straight-line method based on the estimated useful life (five years).

#### 3) Principal accounting standards for reserves

**Allowance for doubtful receivables:** Reserve for possible losses on securities is provided for the amount deemed necessary to cover possible losses estimated based on historical impairment rates and the probability of recovery of the value of each security. Reserves are provided for securities that are deemed unlikely to recover in value.

**Reserve for bonuses:** In principle, the Company provides for an amount equivalent to the current year portion of estimated future bonus payments.

**Allowance for retirement benefits:** Reserve for retirement benefits is provided for the amount deemed necessary, based on estimated pension benefit obligations and pension plan assets at the fiscal year end, to cover required retirement benefits for eligible employees. The net transition obligation resulting from the adoption of a new accounting standard for severance and pension benefits totaling ¥30,642 million was recognized as a lump-sum expense for the year ended December 31, 2001.

Actuarial gains and losses are recognized in expenses using the straight-line method over a fixed period (14 years), which is within the average estimated remaining service lives of the employees, commencing from the following period.

**Special reserve for repairs:** The Company provides for an amount equivalent to the estimated amount needed to cover maintenance and repair expenses for the current fiscal year, such as the regular inspection of tanks required by the Fire Defense Law.

#### 4) Lease transactions

Finance leases, other than those deemed to transfer ownership of the leased assets to the lessee, are accounted for as operating leases.

#### 5) Consumption Tax

Consumption tax is excluded from the accounts that are subject to such tax.

#### 4. Consolidation of profit and loss of consolidated subsidiaries

The profit and loss of consolidated subsidiaries are consolidated into the Company's consolidated financial statements based on the financial data of subsidiaries for the fiscal year.

#### 5. Consolidated Statement of Cash Flows

In preparing the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call, and all highly liquid investments with maturities of three months or less and little risk of fluctuation in value.

#### <Additional Information>

**Pension and Retirement Benefits:** Effective January 1, 2001, the Company and its domestic subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998. As a result of adoption of the new accounting standard, in the year ended December 31, 2001, pension and retirement benefit expenses decreased by ¥1,173 million, and operating profit and ordinary profit, respectively, increased by ¥1,171 million, compared with what would have been recorded under the previous accounting standard. The entire amount of net transition obligation of ¥30,642 million was recorded as a special expense, which had the effect of reducing income before income taxes by ¥29,470 million.

**Financial Instruments:** Effective January 1, 2001, the Company and its consolidated subsidiaries adopted the new Japanese accounting standard for financial instruments, "Opinion Concerning Establishment of Accounting Standard for Financial Instruments," issued by the Business Deliberation Council on January 22, 1999.

As a result of adopting the new accounting standard for financial instruments, ordinary profit and income before income taxes, respectively, increased by ¥93 million, compared with what would have been recorded under the previous accounting standard.

Upon applying the new accounting standard, the Company examines the intent of holding each security and classifies those securities as (a) debt securities intended to be held to maturity or (b) other securities, and records each category as investment securities. In the year ended December 31, 2001, the Company did not recognize the difference between fair market value and the carrying amount for securities included under "Other securities" for which a fair market value is available.

In accordance with article 3 of Ordinance 9 issued by the Ministry of Finance in 2000, other securities of ¥3,397 million, securities for which a market price is available of ¥4,431 million, difference between fair market value and carrying amount of ¥600 million, and deferred tax liabilities of ¥434 million were included on the consolidated balance sheets.

**Foreign Currency Translation into Japanese Yen:** Effective January 1, 2001, the Company and its consolidated subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999. As a result of adopting the new accounting standard for foreign currency translation, ordinary profit and income before income taxes, respectively, increased by ¥52 million, compared with what would have been recorded under the previous accounting standard.

#### Segment Information

##### 1. Business Segment Information

For the consolidated fiscal year ended December 31, 2000

(¥ Million)

	Petroleum	Real estate	Others	Total	Eliminations and corporate	Consolidated
I. Net sales and operating profit						
Net sales						
(1) Sales to outside customers	¥1,622,106	¥ 4,362	¥13,005	¥1,639,475	¥ —	¥1,639,475
(2) Intersegment sales and transfers	69	263	11,683	12,017	(12,017)	—
Total sales	1,622,176	4,626	24,689	1,651,492	(12,017)	1,639,475
Operating expenses	1,587,506	1,984	23,842	1,613,332	(11,527)	1,601,804
Operating profit	¥ 34,670	¥ 2,642	¥ 847	¥ 38,160	¥ 489	¥ 37,670
II. Assets, depreciation and capital expenditures						
Assets	¥ 951,728	¥43,461	¥10,061	¥1,005,252	¥ (3,105)	¥1,002,146
Depreciation	27,889	1,080	36	29,006	—	29,006
Capital expenditures	7,467	131	62	7,661	—	7,661

For the consolidated fiscal year ended December 31, 2001

(¥ Million)

	Petroleum	Real estate	Others	Total	Eliminations and corporate	Consolidated
<b>I. Net sales and operating profit</b>						
Net sales						
(1) Sales to outside customers	¥1,648,121	¥ 4,672	¥12,160	¥1,664,954	¥ —	¥1,664,954
(2) Intersegment sales and transfers	108	131	6,568	6,809	(6,809)	—
Total sales	1,648,230	4,804	18,729	1,671,763	(6,809)	1,664,954
Operating expenses	1,623,523	2,003	18,057	1,643,585	(6,684)	1,636,900
Operating profit	¥ 24,706	¥ 2,800	¥ 671	¥ 28,178	¥ (124)	¥ 28,053
<b>II. Assets, depreciation and capital expenditures</b>						
Assets	¥ 859,640	¥44,541	¥10,082	¥ 914,264	¥ (4,362)	¥ 909,902
Depreciation	27,482	1,071	44	28,598	—	28,598
Capital expenditures	10,135	151	10	10,297	—	10,297

- Notes: 1. All amounts are rounded down to the nearest million yen.  
2. Businesses are classified mainly on an internal management basis.  
3. Main products and businesses in each business segment are as follows:  
(1) Petroleum: Gasoline, naphtha, kerosene, gas oil, fuel oil, lubricating oil, LPG, asphalt, petrochemical products  
(2) Real estate: Real estate leasing and management  
(3) Others: Engineering, data processing, sale of automobile products, leasing business and car rental business  
4. Unallocatable operating expenses included in "Eliminations and corporate" are not included in operating expenses for the fiscal year.  
5. Corporate assets included in "Eliminations and corporate" are not included in assets.  
6. Long-term prepaid expenses and their depreciation are included in depreciation and capital expenditures.

## 2. Geographic Segment Information

For the consolidated fiscal year ended December 31, 2000

As net sales and assets outside Japan accounted for less than 10 percent of total net sales and assets for all business segments, geographic segment information is not disclosed.

For the consolidated fiscal year ended December 31, 2001

Geographic segment information is omitted because the Company has no consolidated subsidiaries or branches domiciled in countries or regions other than Japan.

## 3. Overseas Sales

For the consolidated fiscal year ended ended December 31, 2000

(¥ Million)

	Asia	Europe	Others	Total
Overseas sales	¥172,318	¥9,283	¥958	¥ 182,559
Consolidated net sales				¥1,639,475
Overseas sales as a percentage of total consolidated net sales	10.5%	0.5%	0.1%	11.1%

- Notes: 1. Countries and regions are classified on the basis of geographic proximity.  
2. Principal countries included in each geographic segment are as follows:  
(1) Asia ..... China, Singapore, Republic of Korea  
(2) Europe ..... United Kingdom, Switzerland  
(3) Others ..... U.A.E., U.S.A  
3. Overseas sales are net sales of the Company and its consolidated subsidiaries in countries and regions outside Japan.

For the consolidated fiscal year ended ended December 31, 2001

(¥ Million)

	Asia	Others	Total
Overseas sales	¥153,793	¥58,966	¥ 212,760
Consolidated net sales			¥1,664,954
Overseas sales as a percentage of total consolidated net sales	9.2%	3.5%	12.8%

- Notes: 1. Countries and regions are classified on the basis of geographic proximity.  
2. Principal countries included in each geographic segment are as follows:  
(1) Asia ..... China, Singapore, Republic of Korea  
(2) Others ..... Bermuda, Switzerland, United Kingdom, U.S.A., U.A.E.  
3. Overseas sales are net sales of the Company and its consolidated subsidiaries in countries and regions outside Japan.  
4. The classification "Europe" presented in the financial statements for the year ended December 31, 2000 has been included under "Others" in the financial statements for the year ended March 31, 2001 because it is no longer material to the ratio of overseas sales to total consolidated net sales.

# Non-Consolidated Balance Sheets

Showa Shell Sekiyu K.K.

As of December 31, 2001 and 2000

	Millions of yen	
	2001	2000
<b>Assets</b>		
Current assets:		
Cash and bank deposits .....	¥ 19,543	¥ 11,934
Notes and accounts receivable .....	203,189	238,961
Marketable securities .....	—	1
Products and merchandise .....	42,525	51,395
Materials .....	28,788	29,055
Other current assets .....	97,213	65,973
Total current assets .....	391,258	397,319
Fixed assets:		
Property, plant and equipment:		
Buildings, structures and tanks .....	113,861	123,839
Machinery and equipment .....	24,498	27,605
Land .....	148,408	150,719
Other tangible fixed assets .....	3,781	4,521
Total property, plant and equipment .....	290,548	306,684
Intangible fixed assets .....	12,305	13,349
Investments and other assets:		
Investment securities .....	8,130	27,940
Investments in subsidiaries and affiliates .....	27,733	38,279
Long-term loans .....	2,462	2,380
Others .....	69,805	45,692
Total investments and other assets .....	108,136	114,291
Total fixed assets .....	410,990	434,326
Total assets .....	¥802,248	¥831,645

	Millions of yen	
	2001	2000
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable .....	¥188,606	¥201,457
Short-term borrowings .....	19,899	41,294
Commercial paper .....	32,000	31,000
Accrued expenses .....	86,034	81,497
Accrued income taxes .....	63,689	67,386
Other current liabilities .....	81,165	84,428
Total current liabilities .....	471,393	507,062
Long-term liabilities:		
Bonds .....	30,000	40,000
Long-term borrowings .....	13,000	13,410
Allowance for retirement benefits .....	—	47,416
Termination and retirement benefits .....	71,887	—
Other long-term liabilities .....	15,812	19,669
Total long-term liabilities .....	130,700	120,497
Total liabilities .....	602,094	627,560
<b>Shareholders' equity</b>		
Capital stock .....	34,197	34,197
Legal reserves .....	28,678	28,110
Earned surplus .....	138,324	141,776
Total shareholders' equity .....	200,154	204,085
Total liabilities and shareholders' equity .....	¥802,248	¥831,645

## Non-Consolidated Statements of Income

Showa Shell Sekiyu K.K.

Years ended December 31, 2001 and 2000

	Millions of yen	
	2001	2000
Net sales .....	<b>¥1,590,027</b>	¥1,566,431
Cost of sales .....	<b>1,468,963</b>	1,430,759
Gross profit .....	<b>121,064</b>	135,672
Selling, general and administrative expenses.....	<b>100,703</b>	103,115
Operating profit .....	<b>20,360</b>	32,556
Non-operating income (expenses):		
Interest and dividend income.....	<b>(185)</b>	(692)
Exchange profit (loss).....	<b>4,128</b>	5,173
Miscellaneous income (loss) .....	<b>505</b>	646
Sub-total.....	<b>4,448</b>	5,127
Ordinary profit .....	<b>24,808</b>	37,684
Special profit (loss).....	<b>(20,963)</b>	(18,533)
Income before income taxes .....	<b>3,845</b>	19,150
Corporate, resident, and enterprise taxes .....	<b>22,605</b>	9,529
Corporate tax adjustments .....	<b>(21,551)</b>	603
Net income .....	<b>¥ 2,791</b>	¥ 9,016

## Board of Directors and Corporate Auditors



Chairman & CEO and  
Representative Director  
Haruyuki Niimi



President & COO and  
Representative Director  
John S. Mills



Vice President and  
Representative Director  
Masayoshi Satake



Vice President and  
Representative Director  
Roy D. Waight



Managing Director  
Kenji Kashima



Managing Director  
Hitoshi Kaneko



Director  
H.K.Lim



Director  
Iichirou Hayaki



Director  
Shigeya Katou



Director  
Yasuo Murayama



Director  
Jun Yui



Full-Time Auditor  
Takuu Kimura



Full-Time Auditor  
Masao Koiwa



Full-Time Auditor  
Hisao Nozaki



Auditor  
Takako Mohri



Auditor  
Noriyuki Yamaga

Chairman & CEO and  
Representative Director  
Haruyuki Niimi

President & COO and  
Representative Director  
John S. Mills

Vice Presidents and  
Representative Directors  
Masayoshi Satake  
Roy D. Waight

Managing Directors  
Kenji Kashima  
Hitoshi Kaneko

Directors  
H.K.Lim  
Iichirou Hayaki  
Shigeya Katou  
Yasuo Murayama  
Jun Yui

Full-Time Auditors  
Takuu Kimura  
Masao Koiwa  
Hisao Nozaki

Auditors  
Takako Mohri  
Noriyuki Yamaga

(As of March 28, 2002)

# Network, Major Subsidiaries and Affiliates

## Head Office

Daiba Frontier Bldg., 2-3-2, Daiba, Minato-ku, Tokyo 135-8074  
TEL: (03) 5531-5591

## Ishioka Training Center

3-21-11, Minamidai, Ishioka, Ibaraki 315-0035  
TEL: (0299) 26-9611

## Central Research Laboratory

Main: 4052-2, Nakasu, Aikawa-cho, Aiko-gun, Kanagawa 243-0303  
TEL: (0462) 85-0564

## Branches

### Hokkaido

5-3-4, Chuo 2 jyo, Atsubetsu-ku, Sapporo, Hokkaido 004-0052  
Tel: (011) 802-3525

### Tohoku

4-1-1, Ichiban-cho, Aoba-ku, Sendai, Miyagi 980-0811  
Tel: (022) 263-1216

### Tokyo

2-7-3, Marunouchi, Chiyoda-ku, Tokyo 100-0005  
Tel: (03) 3214-8518

### Kanagawa

2-7-3, Marunouchi, Chiyoda-ku, Tokyo 100-0005  
Tel: (03) 3214-7301

### Saitama

2-7-3, Marunouchi, Chiyoda-ku, Tokyo 100-0005  
Tel: (03) 3214-7302

### Chiba

2-7-3, Marunouchi, Chiyoda-ku, Tokyo 100-0005  
Tel: (03) 3214-7303

### Kanto

2-7-3, Marunouchi, Chiyoda-ku, Tokyo 100-0005  
Tel: (03) 3214-8581

### Niigata

21, Heiwa-cho, Niigata-shi, Niigata 950-8515  
Tel: (025) 274-5511

### Shizuoka

3-11, Otemachi, Shizuoka-shi, Shizuoka 420-0853  
Tel: (054) 255-5381

### Chubu

3-25-9, Meieki, Nakamura-ku, Nagoya, Aichi 450-0002  
Tel: (052) 582-6611

### Hokuriku

3-25-9, Honmachi, Kanazawa, Ishikawa 920-0853  
Tel: (076) 233-5151

### Kinki

2-5-8, Minami-senba, Chuo-ku, Osaka-shi, Osaka 542-0081  
Tel: (06) 6271-9825

## Chugoku

2-7-10, Otemachi, Naka-ku, Hiroshima-shi, Hiroshima 730-0051  
Tel: (082) 249-4424

## Shikoku

4-17-1, Asahi-cho, Takamatsu, Kagawa 760-0065  
Tel: (087) 851-7934

## Kyushu

3-11-1, Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka 810-0001  
Tel: (092) 752-5318

## Petroleum Import Terminal

### Niigata

21, Heiwa-cho, Niigata-shi, Niigata 950-0035  
Tel: (025) 274-4141

## Lubricant Blending Plants

### Yokohama

2-4, Anzen-cho, Tsurumi-ku, Yokohama, Kanagawa 230-0035  
Tel: (045) 505-8201 Fax: (045) 505-0221

### Kobe

6-1-17, Namimatsu-cho, Nagata-ku, Kobe, Hyogo 653-0055  
Tel: (078) 731-2035 Fax: (078) 734-4650

## Regional Centers

### Regional Center (Tokyo)

2-7-3, Marunouchi, Chiyoda-ku, Tokyo 100-0065  
Tel: (03) 3214-8531

### Regional Center (Sendai)

4-1-1, Ichiban-cho, Aoba-ku, Sendai, Miyagi 980-0811  
Tel: (022) 263-1214

### Regional Center (Osaka)

2-5-8, Minamifunaba, Chuo-ku, Osaka-shi, Osaka 542-0081  
Tel: (06) 6271-2411

### Regional Center (Fukuoka)

3-11-1, Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka 810-0011  
Tel: (092) 752-5331

### Regional Center (Nagoya)

3-25-9, Meieki, Nakamura-ku, Nagoya, Aichi 450-0002  
Tel: (052) 582-6575

## Lube Customer Service Center

2-4, Anzen-cho, Tsurumi-ku, Yokohama, Kanagawa 230-0035  
Tel: 0120-064-315

## Affiliates

●Company name	●Equity ownership	●Major businesses
Showa Yokkaichi Sekiyu Co., Ltd.	75.0	Petroleum refining
Toa Oil Co., Ltd.	37.4	Petroleum refining
Seibu Oil Co., Ltd.	24.5	Petroleum refining
Showa Shell Sempaku Co., K.K.	100.0	Domestic and international shipping
Heiwa Kisen Kaisha, Ltd.	100.0	On-site services at refineries and oil fields; shipping agent
Japan Oil Network Co., Ltd.	49.0	Petroleum storage; contracts for receipts and payments; leasing of petroleum storage facilities
JLS Corporation	50.0	Receipt of orders for delivery, allocation of vehicles and delivery of petroleum products
Niigata Joint Oil Stockpiling Co., Ltd.	25.0	Petroleum storage
East Ogishima Oil Terminal K.K.	70.0	Petroleum storage
Hokkaido Joint Oil Stockpiling Co., Ltd.	10.0	Petroleum storage
Oita L.P.G. Joint Stockpiling Co., Ltd.	15.0	Liquefied natural gas storage
Shoseki Engineering & Construction Co., Ltd.	100.0	Design and construction of industrial facilities, particularly those used in the petroleum industry
Red and Yellow Co., Ltd.	100.0	Import and sales of lubricating oil
Nippon Grease Co., Ltd.	99.3	Manufacturing and sales of grease and lubricating oil
Rekisei Kagaku K.K.	100.0	Processing of specialized asphalt products
Showa Solar Energy K.K.	75.0	Manufacturing, sales, import and export of solar batteries
K.K. SVC Tokyo	100.0	Performance testing and analysis of petroleum products; solutions to prevent oil from polluting the soil; engine testing
Shoseki Kako K.K.	100.0	Manufacturing and sales of materials used for waterproofing buildings, petroleum products and asphalt pavement
Shoseki Kasei K.K.	100.0	Manufacturing and sales of solvents, resins, anti-pollution equipment and coating materials
Shoseki Gas K.K.	100.0	Sales of liquefied natural gas; processing of high-pressure gas and other petroleum products; sales of household appliances and office automation equipment
K.K. Rising Sun	100.0	Sales of petroleum and automotive products; indemnity agent; leasing; uniform rental
Sailis Co., Ltd.	100.0	Sales of petroleum products; management of Shell Museum
Kyoto Sky Parking K.K.	100.0	Operation of parking facilities; real estate agent
K.K. Creco	100.0	Building maintenance services; travel agent
K.K. On Site Power	39.0	Supply of heat and electricity

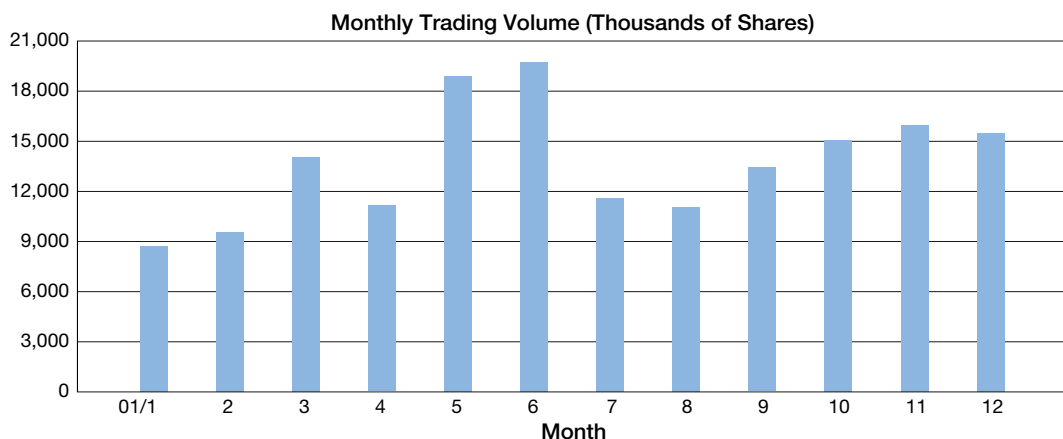
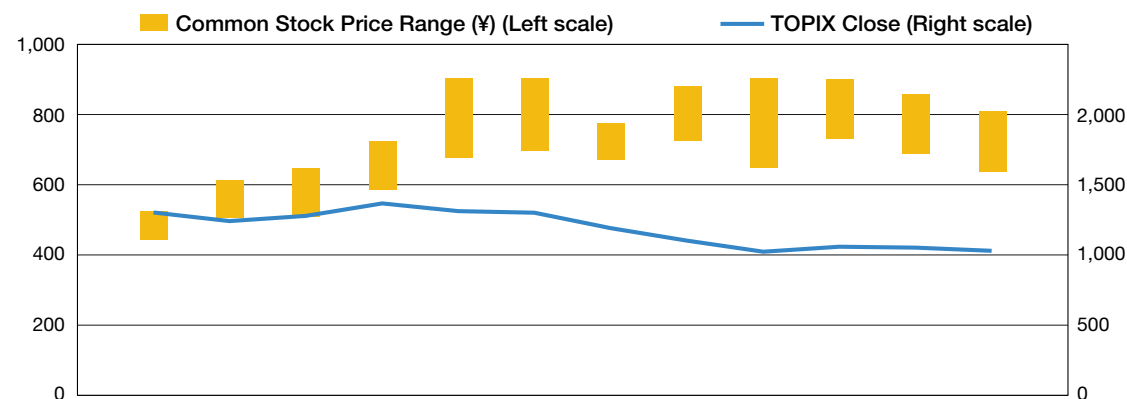
## Investor Information

**Date of Incorporation:**..... January 1, 1985  
**Total Shares Authorized:** ..... 440,000,000 shares  
**Total Shares Issued and Outstanding:**.... 376,850,400 shares  
**Paid-in Capital:** ..... ¥34,197,585,000  
**Number of Employees:** ..... 1,105  
**Total Number of Service Stations:**..... 5,474  
**Number of Shareholders:** ..... 7,275  
**Securities Listings:**..... Tokyo, Osaka, Nagoya, Fukuoka and Sapporo  
**Ticker Code:**..... 5002  
**Transfer Agent:**..... Mizuho Trust & Banking Co., Ltd.  
 1-5-1, Marunouchi, Chiyoda-ku, Tokyo 100-8240, Japan  
**Independent Auditors:** ..... ChuoAoyama Audit Corporation

### Major Stockholders

	Shares owned (Thousand shares)	Percentage of total common shares outstanding
The Shell Petroleum Co., Ltd. ....	174,850	46.40%
The Dai-ichi Kangyo Bank, Ltd. ....	14,196	3.77
Japan Trustee Services Bank, Ltd. ....	13,668	3.63
Shinsei Bank, Limited.....	11,110	2.95
The Toyo Trust & Banking Co., Ltd. ....	8,825	2.34
The Chuo Mitsui Trust and Banking Company Limited .....	7,863	2.09
The Mexican Eagle Oil Co., Ltd.....	6,790	1.80
The Anglo-Saxon Petroleum Co., Ltd. ....	6,784	1.80
Trust & Custody Services Bank, Ltd. ....	6,492	1.72
The Mitsubishi Trust and Banking Corporation.....	6,024	1.60
<b>Total</b> .....	<b>256,602</b>	<b>68.10</b>

### Stock Price



(As of December 31, 2001)

# Statement of General Business Principles

## 1. Objectives

The objectives of the Company are to engage responsibly and efficiently in profitable businesses in the fields of refining and sales of oil and related fields.

The Company seeks a high standard of performance and aims to maintain a long-term position in competitive environments.

## 2. Responsibilities

The Company recognizes the following responsibilities:

### 1) *Responsibility to shareholders*

To protect shareholders' investment, and provide an acceptable return.

### 2) *Responsibility to customers*

To win and retain customers by developing and providing products and services that offer value in terms of price, quality, safety and environmental impact, and which are supported by technological, environmental and commercial expertise.

### 3) *Responsibility to employees*

To respect the worth and individuality of employees, and provide them with a safe work environment and good working conditions; to promote the development and best use of human resources; and to encourage the involvement of employees in the implementation of business and in the application of these principles within the Company.

### 4) *Responsibility to business partners*

To seek mutually beneficial relationships with business partners, including joint venture partners, and to promote the application of these principles in these relationships; to consider the ability and performance of these companies to conform with these principles in the decision to enter into or remain in such relationships.

### 5) *Responsibility to society*

To conduct business as a responsible corporate member of society, to observe laws, to express support for fundamental human rights, and to give proper regard to health, safety and the environment consistent with the commitment to contribute to sustainable development.

## 3. Economic Principles

Profitability is essential to discharging these responsibilities and remaining a going concern. It is a measure both of efficiency and of customer satisfaction with the Company's products and services. It is also essential to the future allocation of corporate resources and to the continuing investment required to ensure a stable supply of energy to meet consumer needs. Without profits and a strong financial foundation, it is not possible to fulfill the responsibilities outlined above.

Criteria for investment decisions are not exclusively economic in nature but also take into account social and environmental effects.

## 4. Business Integrity

The Company has established a corporate code of conduct and insists on honesty and fairness in all aspects of its business, and expects the same in its relationships with all entities with which it does business.

The direct or indirect offering, payment, solicitation or acceptance of bribes in any form are unacceptable practices. Employees must avoid conflicts of interest between their private financial activities and their conduct on behalf of the Company.

All business transactions on behalf of the Company must be reflected accurately and fairly in the accounts of the Company in accordance with established procedures and be subject to audit.

## 5. Political Activities

The Company acts in a socially responsible manner within the law in pursuit of its legitimate commercial objectives.

The Company does not make payments to political parties, organizations or their representatives or take any part in party politics. However, the Company has the right and the responsibility to make its position known on any matter that affects the interests of itself, its employees, its customers and its shareholders.

## 6. Health, Safety and the Environment

Consistent with its commitment to contribute to sustainable development, the Company adopts a continuous and systematic approach to health, safety and environmental management.

To this end, the Company manages these matters as it does all other critical business activities, sets targets for improvement, and measures, appraises and reports on performance.

## 7. Local Community

The Company is actively involved in contributing to society as a responsible member thereof. The most important contribution that the Company can make to the local community is in performing its core business as efficiently as possible.

## 8. Competition

The Company seeks to compete freely and fairly within the framework of applicable competition laws.

## 9. Communications

The Company recognizes that open communication is essential in view of the importance of the activities in which it is engaged and their impact on national economies and individuals. The Company therefore provides relevant information about its activities in a timely and appropriate manner.

## 10. Companies of the Showa Shell Sekiyu Group

The Company encourages these companies to adopt and abide by its Statement of General Business Principles.

# **Showa Shell Sekiyu K.K.**

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