

Becoming a Leading Company: A Scenario for Further Growth

>>> Retail Renaissance 21: Strengthening the Core Retail Business Through Selection and Concentration

High-Value-Added Products Based on Customer Needs: The Success of New High-Octane Gasoline Shell Pura

Showa Shell is accelerating its efforts to achieve customer-led value generation and supply of high-value-added products in the downstream oil retail segment. An example of these successful efforts is high-performance Shell Pura, an environmentally friendly high-octane gasoline.



Several articles were published on an experiment conducted by an automotive magazine demonstrating Shell Pura's carbon deposit cleansing function.

“Engine-Cleansing Gasoline” Developed to Reflect Consumer Demands

Shell Pura, launched in March 2002 in the Tokyo metropolitan area (Tokyo, Kanagawa and Saitama), was developed as an “engine-cleansing gasoline,” in response to customer demands for a gasoline that would keep their cars running well for a long time. Showa Shell developed Shell Pura with dealers as part of the product differentiation strategy in the Retail Renaissance 21 plan, which promotes customer-led value generation. With a new detergent developed jointly by Showa Shell and the Shell Group, Shell Pura removes deposits in the engine, maximizing engine performance and substantially reducing emissions of carbon monoxide, hydrocarbons and other harmful gases.

Several automotive magazines have published articles on this remarkable cleansing function. One magazine conducted an experiment in which a car was driven 10,000 kilometers fueled only with Shell Pura, and forcefully depicted the unrivalled cleansing power with “before” and “after” pictures of

the inside of the engine to show how the deposits had been removed. This positive publicity, in addition to the product's high performance, is leading to strong customer support.

Steadily Expanding the Sales Area Nationwide

Showa Shell is gradually expanding the sales area for Shell Pura based on the response of consumers in regional markets. After launching Shell Pura in the Tokyo metropolitan area, Showa Shell introduced it in the Chubu region (Aichi, Gifu and Mie) and parts of the Kanto region (Gunma, Yamanashi, Shizuoka and Nagano) in July 2002, and the Kansai region (Osaka, Kyoto, Hyogo and Shiga) and more areas in the Kanto region (Tochigi and parts of Chiba) in November 2002.

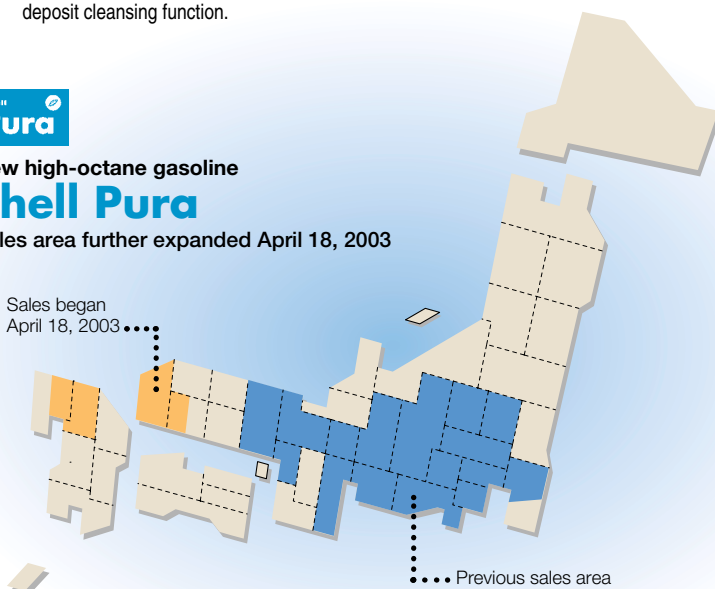
Shell Pura has contributed to substantially improved sales in the areas where it has been introduced, and has helped revitalize the service station network and the Showa Shell Group as a whole. Showa Shell launched Shell Pura in the Chugoku region (Yamaguchi and western Hiroshima) and Kyushu (Fukuoka and Saga) on April 18, 2003, aiming to further improve competitiveness and profitability by expanding the sales area nationwide.



New high-octane gasoline
Shell Pura

Sales area further expanded April 18, 2003

Sales began
April 18, 2003.....



..... Previous sales area



The Pura bus is effective PR for reaching a wide customer segment.



Using the Convenience and Hospitality of Service Stations to Enrich Services and the Earnings Base

Showa Shell is strengthening its automotive-related businesses to help customers keep their cars at top performance for a long time. The frequency with which customers visit its service stations and the convenience of an established nationwide network will enable Showa Shell to provide support for customers' automotive needs and improve the profitability of affiliated service stations.



The redesigned service station uniforms

New and Improved Shell Car Inspection

To improve customer service and expand the retail business, Shell Car Inspection, the automobile inspection service, has been completely updated. Showa Shell was not only the first in the industry to offer free roadside assistance, but also provides maintenance guarantees and automotive support until the time of the next inspection. Shell Car Inspection also offers a reasonable price; weekend and holiday service; access to a rental car; one-day service; and other services to meet customer needs. In addition, customers can receive an estimate or make reservations 365 days a year by calling the Shell Contact Center toll-free or visiting the Shell Car Inspection website.

Introduction of Shell Repair Automotive Service

A quick and reliable automotive repair service offering metal and paint finishing, Shell Repair was introduced throughout Japan in 2002. Participating service stations are able to perform a wide range of auto body repair services, in cooperation with a nationwide network of select factories. Showa Shell will continue working to make the repair business even stronger by introducing new services such as taking appointments through the Company's website, as it already does for Shell Car Inspection.

New Credit Card Strategies

Showa Shell steadily increased membership for the X-Card in 2002 through two promotional campaigns. One of the most widely issued gas station credit cards in Japan, the X-Card is the first in the industry to offer cash back on purchases.

With the advent of a large-scale increase in the number of self-service stations throughout Japan, developing a credit card strategy has become more important than ever. In 2003, Showa Shell plans to

introduce the Shell Business Card aimed at new corporate customers and the Shell Starlex Card, a version of the X-Card with more advanced features. The new cards will help to expand Showa Shell's loyal customer base by meeting the needs that customers have expressed in surveys.

Redesigned Uniforms

For the first time in eight years, Showa Shell has updated service station uniforms, the public face of the network. The uniforms have been redesigned to be more functional and safe, and feature coloring and design that elicit trust and a good impression from customers.

2003 Image Personality: Ayumi Wooley

Ayumi Wooley has been selected as the new public face for Showa Shell. Born to a British father and a Japanese mother, she has a natural charm that symbolizes the cooperative nature and infinite potential of Showa Shell. As the public face of Showa Shell, she will be featured in commercials, on posters and in events.



New credit cards: the Shell Starlex Card and the Shell Business Card



Showa Shell's third "image personality," Ayumi Wooley

Communication with Customers

Showa Shell is strengthening ordering services, the supply of information on products and services, and other aspects of interactive communication with customers by concentrating on improved customer satisfaction in order to achieve customer-led value generation.



Shell Helix, the highest grade of lubricant

Establishment of the Customer Service Center

Showa Shell is broadening its information services to strengthen customer communication and expand its business. Activities in 2003 will include the establishment of a Customer Service Center. Aiming to improve operations and expand business, Showa Shell will use the Center to provide a centralized point of contact for customer questions regarding fuel and orders to improve customer satisfaction and efficiency, while offering a direct link to its customers' opinions.

Improving the Lube Customer Service Center

The Lube Customer Service Center, established in the Lubricants & Bitumen Division, has achieved a good reputation for answering questions from and offering advice to customers about lubricants, as well as providing technical support regarding oil changes and automotive lubricants handled by service stations. Showa Shell set up the Helix Hotline, a service station oil consultation office, at the Center in April 2002. The full-time staff deal flexibly with customer inquiries.

A Stronger Sales Network

Showa Shell is making continuous efforts to reorganize its service station network and improve the cost competitiveness of the value chain, which comprises the Company and its affiliated dealers.

Making the Service Station Network More Distinctive and Competitive Through Selection and Concentration

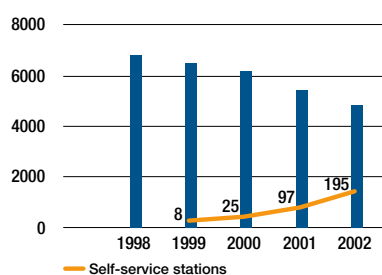
Aiming to become a brand that customers choose first, Showa Shell is continuing with efforts to improve the competitiveness of affiliated service stations and reorganize its service station network. The number of self-service stations in Japan has grown dramatically, surpassing 2,400 by the end of 2002, and is expected to increase further. Showa Shell plans to make strategic investment in self-service stations the main focus of its efforts to strengthen the service station network. However, in today's challenging business environment, service stations that are not competitive will not survive, whether they are self-service or full-service. Showa Shell is working to ensure that self-service stations take into account customers' needs, the characteristics of the region and economic considerations, while focusing management resources through selection and concentration to improve the quality of the service station network. While passing on the know-how accumulated through service stations operating under agent

schemes, the embodiment of the retail strategy, to new service stations, Showa Shell is working to differentiate itself from competitors.

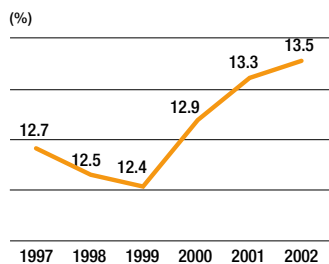
Improving the Dealership Structure and Enhancing Profitability

In order to gain customers' trust and keep ahead of competitors in today's challenging profit environment, it will be crucial to increase overall competitiveness, focusing not on the Company alone but on the entire Group, including affiliated dealers. Showa Shell is working to develop more attractive service stations by proposing the Retail Renaissance 21 series of sales strategies to help improve marketing capabilities. Efforts to improve the dealership structure are also producing steady results. Showa Shell is pursuing improvements in efficiency through technologies such as electronic billing in order to enhance cost competitiveness, and is working to support a strong earnings base at dealerships by promoting human resources development using the Shell Royal Manager (SRM) system.

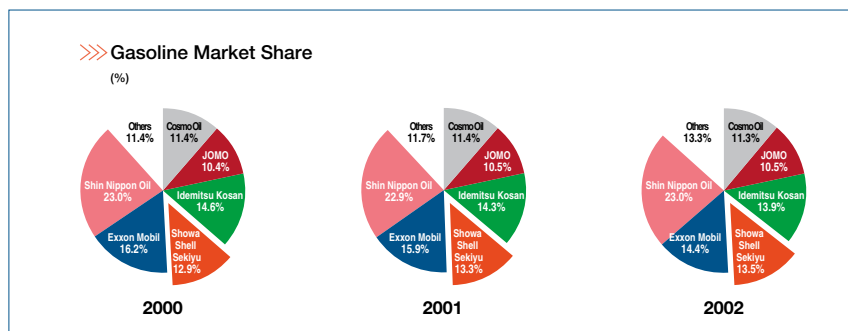
Number of Service Stations



>>> Gasoline Market Share of Showa Shell Sekiyu



* Includes Seibu Oil Co., Ltd.



>>> Building a Foundation for Future Business Expansion

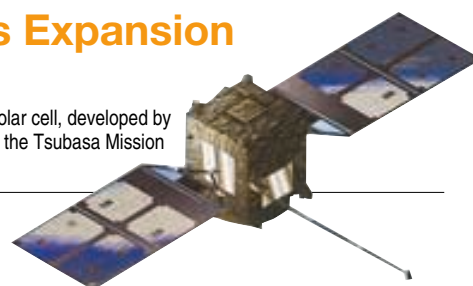
Growing and Developing New Businesses

As a total energy provider that supports society and business, Showa Shell is making further efforts to reduce environmental load while actively working to develop environmental measures and clean energy alternatives such as solar power generation systems and fuel cells, in order to play a leading role in the coming generation.



Solar cells are being used not only on ordinary houses, but also in the Antarctic.

The CIS-based thin-film solar cell, developed by Showa Shell, was used in the Tsubasa Mission Demonstration Satellite.



Establishment of the New Business Development Division

In September 2002, the New Business Development Division was established to further the development of new businesses in areas including the environment and new energy sources. Making full use of the Company's lateral network and all its resources, the division is strengthening efforts to establish new business models in the environmental and new fuel fields by expanding on previous efforts in the solar cell business and distributed generation business.

Electric Power Business (On-Site Power Generation and Power Generation)

K.K. On Site Power, established with Marubeni Energy Corporation and ORIX Corporation, handles Showa Shell's on-site power generation business, and has launched independent power producer (IPP) operations at Toa Oil Co., Ltd., a Group-affiliated refinery. In addition, Showa Shell has established a planning company with Tokyo Gas Co., Ltd. and Shell Gas & Power Japan Ltd. for exploring business prospects of natural gas power generation. As the electric power market moves toward greater deregulation, Showa Shell is actively developing its electric power generation business to provide more environmentally friendly and economical forms of energy.

Solar Cell Business

The Tsubasa Mission Demonstration Satellite of the National Space Development Agency of Japan (NASDA), launched from the Tanegashima Space Center in February 2002, carried a next-generation CIS-based thin-film solar cell developed by Showa Shell. This next-generation solar cell features a superior design offering both high efficiency generation and low cost, and is expected to increase market share for Showa Shell, which is aggressively promoting its development for early production and sales. Showa Shell completed a demonstration system at the Central Research Laboratory in February 2003, and has been demonstrating its superior technical capabilities in the field of next-generation solar cell development. Recognition has included the highest honors at the third World Conference on Photovoltaic Energy Conversion in May 2003.

Environment-Related Business

As described in the Company's management philosophy, Showa Shell recognizes its social obligation to protect the environment and ensure the safety of its operations. As a result, Showa Shell continually strives to develop its Health, Safety and Environment (HSE) activities, which

include publishing *Moderate*, the Company's environmental report, and strengthening the risk management system. In addition, plans are underway to develop environmental businesses, including soil pollution-related services and CO₂ emissions trading. Showa Shell has superior expertise in managing the risk of soil contamination. Network Environmental Risk Assessment (NERA), a method of inspecting and analyzing soil contamination developed and first introduced by the Shell Group in 1999, will be used to reevaluate affiliated service stations in 2002.

Opening of the Ariake Hydrogen Station

In cooperation with the Japan Hydrogen and Fuel Cell Demonstration Project (JHFC) and the Tokyo Metropolitan Government's Hydrogen Refueling Station Pilot Program, Showa Shell opened the Ariake Hydrogen Station in Koto-ku, Tokyo in June 2003. The Ariake Hydrogen Station is Japan's first liquefied hydrogen refueling station, enabling the supply of liquefied hydrogen and compressed hydrogen. Over the next two years, the facility will supply hydrogen fuel for fuel cell vehicles conducting test drives.

Showa Shell will steadily prepare for the coming

era of fuel cell vehicles by continuing to participate in state-sponsored projects, while strengthening ties with the Shell Group, which is involved in hydrogen fuel projects in California, Iceland, and other locations around the world.



The Ariake Hydrogen Station

>>> Pursuing Further Cost Reductions and Higher Added Value

Company-wide Business Innovation

Making use of the latest information technologies, Showa Shell is introducing more innovative and efficient business processes company-wide in order to further reduce structural costs and improve employee productivity.

Laying the groundwork for the second stage of reforms, Showa Shell has launched a company-wide program to review and restructure its business processes. The Business Innovation Division was established in January 2002 to oversee the Company's Business Process Reengineering (BPR) initiative. To prepare for the introduction of the new SAP information system to be established in 2003, more than 700 business processes were analyzed and integrated, and BPR was swiftly applied to standard processes and deficient areas.

Showa Shell considers the new SAP system the key to achieving its management strategies. Working to ensure compatibility among its management strategies, business processes and information systems will enable the Company to realize more strategic and effective business innovation through accelerated decision-making, improved customer satisfaction and high-quality solutions provided in a timely manner.

Building a Low-Cost Business Model and Profit-Maximizing Operations for Refining

Showa Shell has established a short position in production capacity by reducing refining capacity ahead of other companies and improving sales capabilities. In the refining field, Showa Shell has established superiority in the industry.



The Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd.

Maintaining the Highest Capacity Utilization Rate in Japan

In 2002, the performance of regularly scheduled repairs required by law resulted in a decrease in the volume of crude oil refined at Group refineries. Despite this fact, the refining capacity utilization rate remained the highest in Japan at 89.6 percent, exceeding the industry average of 79.4 percent. As overcapacity continues to plague the Japanese market, the Showa Shell Group, through its supply short position, has instituted an extremely flexible refining operation that stresses prioritization of refinery profitability and optimization of outside procurement for underproduction.

Further Reducing Refining Costs

Refining costs have steadily decreased following the integration of the Keihin Refinery in October 2000. In addition, reviewing the terms of contracts with Group-affiliated refineries and transferring employees has contributed to further gains in efficiency. Rather than remaining content with its success, Showa Shell will continue working to reduce costs, in the face of rising refining costs associated with environmental regulations and intensifying competition in Asia.

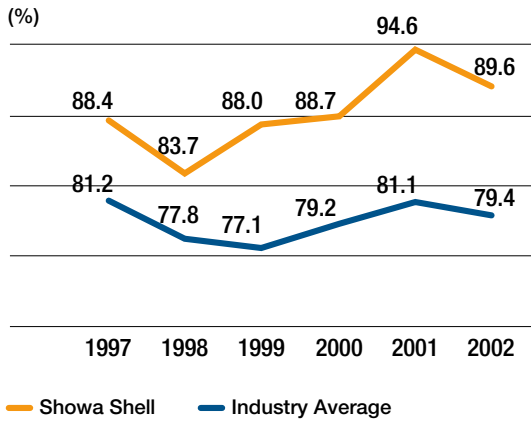
Improving Profitability by Increasing Sales of White Oil

Showa Shell's unrivalled domestic production

rate of white oil products such as gasoline, kerosene and lighter distillates has helped it to secure superior profitability. In the future, efforts will

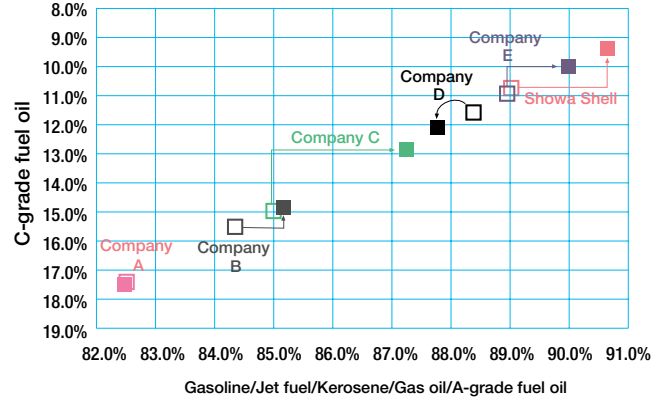
be made to further improve the earnings structure through closer coordination with the marketing and production divisions.

Capacity Utilization Rate of Refineries



Sales of White Oil in Fuel Oil Marketing (2001 vs 2002)

(Gasoline + Jet fuel + Kerosene + Gas oil + A-grade fuel oil + C-grade fuel oil = 100%
*Excluding naphtha)



Strengthening the Alliance with Japan Energy Corporation

To develop further synergies, Showa Shell is expanding its alliance with Japan Energy Corporation, with a focus on refining and distribution.



Refining

Based on guidelines for barter trading volume, which it updates monthly, the joint venture JS Initiative, Ltd. (JSI) conducts efficient product barter trading that flexibly reflects the situation of both parties. An Internet-based joint purchasing system was introduced in July 2002, and the range of products available will gradually be expanded.

Showa Shell aims to make further gains in efficiency through greater synergies, new alliances and strengthened existing alliances, particularly with JSI.

Distribution

The joint venture JLS Corporation has developed and operates a common system to effectively handle order-taking and vehicle dispatching. The company also conducts joint delivery operations in Hokkaido and other parts of the country.

Establishment of the Sales Operations Division

In April 2003, the Lorry Delivery Division was spun off from the Distribution Division. In order to clarify its relationship with the Sales Division, the Sales Operations Division was newly established under the control of the Sales Division. By making

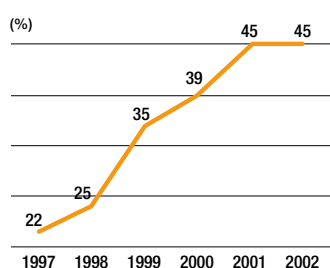
delivery operations a part of marketing services, Showa Shell aims to reduce costs, gain a better understanding of customer needs, and expand business opportunities.

Reducing Distribution Costs by Using Larger-Scale Modes of Transport and Strengthening Alliances

While working to reduce distribution costs by increasing large-scale vessel and trailer shipping, Showa Shell is pursuing barter arrangements with other companies in the industry and establishing an optimum oil flow.



Barter Ratio



Upgrading Infrastructure to Strengthen Shipping Operations

In 2002, Showa Shell invested in three large-scale tankers with a capacity of more than 6,000 kiloliters. Measures for utilizing these tankers most effectively have included expansions of dock facilities at terminals and the installation of additional storage tanks. Showa Shell plans to use its new tankers and upgraded facilities to increase large-scale vessel shipping and improve the

efficiency of shipping operations.

Regarding ground transportation, Showa Shell will continue forming barter arrangements with other companies, primarily Japan Energy Corporation. Furthermore, during 2003 the Company will increase its night deliveries and driver-controlled deliveries (DCD), made possible by the improved rate of operation of lorries.

Reducing Procurement Costs

To create a flexible and low-cost purchasing system, Showa Shell is working to create an optimal mix of exporters, while working to lower procurement costs through efforts such as strengthening Company-wide centralized purchasing.

Optimizing Procurement by Monitoring Trends in the Crude Oil Market

Showa Shell plans to continue conducting crude oil procurement that emphasizes economic considerations and added value, and takes into account the sales mix and compatibility with refinery equipment. Showa Shell selects the most economically advantageous option for crude oil procurement from a diverse group of options, including companies within the Shell Group.

In 2003, Showa Shell will step up efforts to strengthen the Group centralized purchasing system while pursuing significant reductions in procurement costs.



Crude Oil Prices and Exchange Rate

