

Showa Shell Sekiyu K.K.

2003 Annual Report

Shifting
to **Dynamic Growth**



Profile

Showa Shell Sekiyu K.K. was formed in 1985 in a merger of two equal partners: Showa Oil Co., Ltd., established in 1931, and Shell Sekiyu K.K., which had more than a century of tradition in Japan. Over the ensuing years, Showa Shell has built a unique corporate culture that features the best of both Japanese and Western management practices. While striving to pinpoint and fully satisfy the needs of local customers in Japan, the Company is also engaged in a rapid transformation to meet the evolving expectations of both domestic and overseas shareholders. This hybrid business style has enabled Showa Shell to lead the Japanese oil industry in corporate reform, an area in which no competitor even comes close.

As a member of the Royal Dutch/Shell Group, a multinational corporation operating in more than 145 countries, Showa Shell benefits from the Group's technologies and expertise. Backed by this powerful affiliation, Showa Shell's industry-leading structural reforms keep the Company highly competitive, enabling it to meet the challenges of today's changing business environment with both speed and precision.



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Shifting to Dynamic Growth

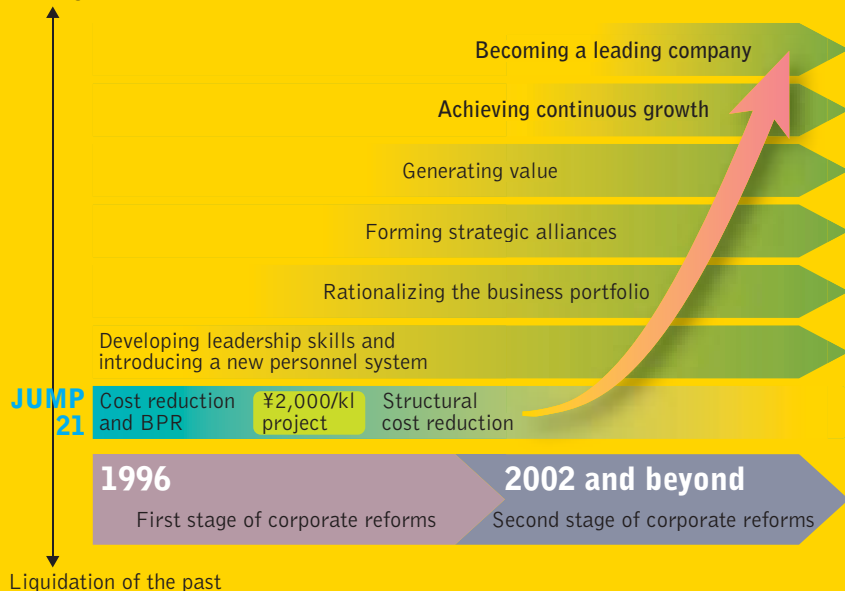
Since the liberalization of Japan's oil industry began in 1996, Showa Shell has been at the forefront of change, pursuing an ambitious program of corporate reform to realize greater cost-competitiveness and build a stronger financial structure. Today, Showa Shell is intent on shifting to dynamic growth, earning a reputation as a leading company that can achieve outstanding success in any business environment.



1

Showa Shell Reform Road Map

Building a new business model



Becoming a Leading Industry Participant

■ Continually Improving Shareholders' Return

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

■ 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.

■ Being a Responsible Member of Society

The Company's approach towards health, safety and 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.

Strong Financial Foundation a Bolder

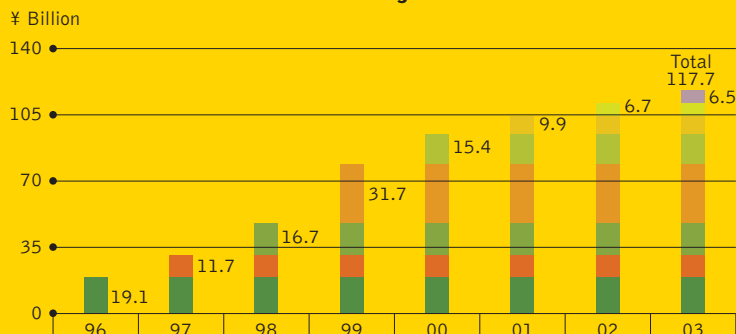
>>> Aggressively Increasing Strategic



Through *Jump 21*, a corporate reform program introduced in fiscal 1996, the Showa Shell Group had cut structural costs by ¥117.7 billion and reduced consolidated interest-bearing debt by ¥318.8 billion by the end of fiscal 2003. These bold steps have significantly strengthened the Group's financial foundation, bringing its gearing ratio down from 68.9 percent to 34.0 percent and generating ample free cash flow. Showa Shell is perfectly positioned for the shift to dynamic growth.

➤ Achieved Structural Cost Reductions of ¥117.7 Billion

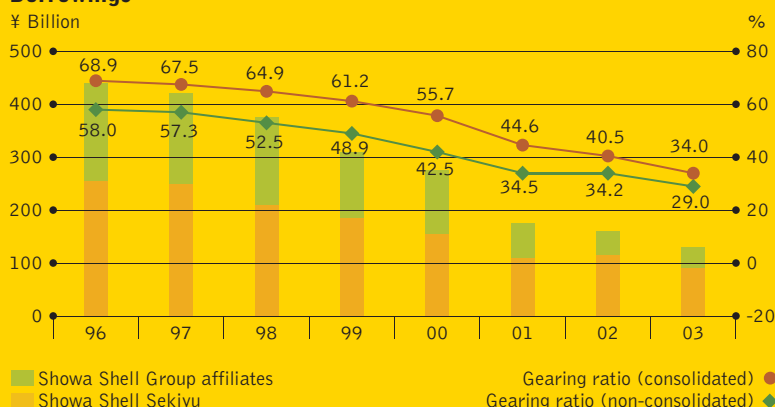
Structural Cost Reductions to Strengthen Financial Position



1995-2003 (non-consolidated)

➤ Eliminated ¥318.8 Billion in Interest-Bearing Debt/Leading the Industry in Low Debt Dependence

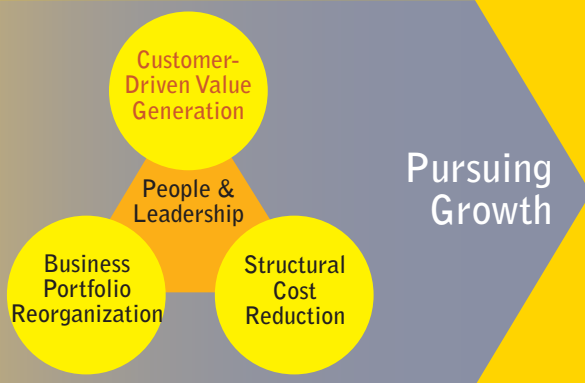
Borrowings



Enables Management Style

Growth Investment

Core Strategies

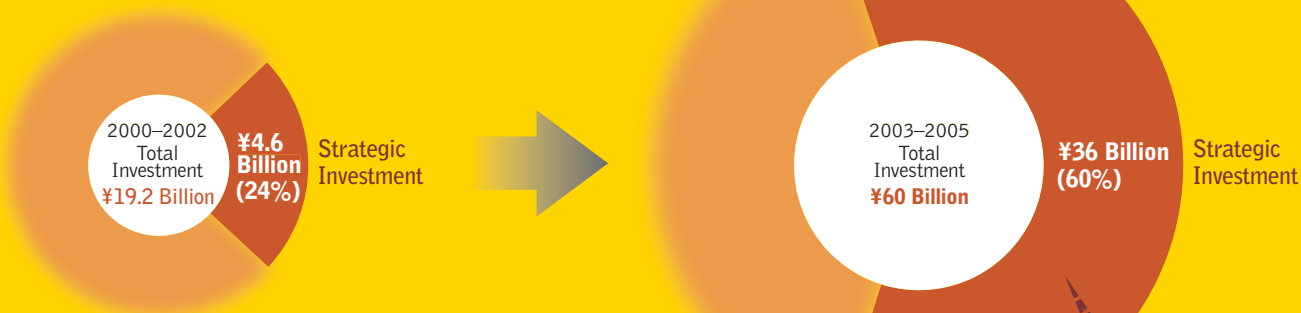


- Expand the Core Businesses that Currently Provide the Main Sources of Revenue
- Create the Groundwork for New Businesses for the Future
- Achieve Further Structural Cost Reduction to Enhance Competitiveness

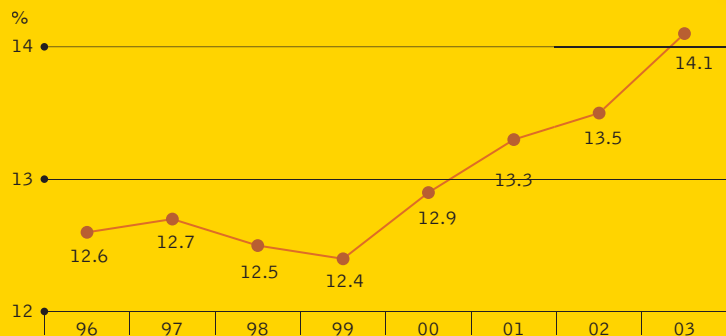
In fiscal 2002, Showa Shell moved into the second stage of its corporate reform program, and is now focused on executing some ¥36 billion in strategic investments called for in its Medium-Term Management Plan for 2003 to 2005. These investments are designed not only to accelerate corporate growth, but also to ensure that this new growth is sustainable. The management plan outlines strategic moves across the business, and Showa Shell has taken tactical steps to enhance competitiveness in its core downstream oil business. In the area of sales and marketing, for instance, Showa Shell has reached an agreement on equity participation in Marubeni Energy Corporation. In the area of refining, the Company has upped its equity stake in Seibu Oil Co., Ltd.

Showa Shell also has set its sights on future growth sectors, and is now laying the groundwork to capitalize on these new business opportunities. One example is Ogishima Power, a firm jointly established in August 2003 by Tokyo Gas Co., Ltd. and the Royal Dutch/Shell Group to undertake a large-scale project in power generation using liquefied natural gas (LNG). Showa Shell has also begun the first tests of gas-to-liquid (GTL) fuel use on public roads in Japan.

➤ Enhancing Growth through Strategic Investments: ¥36.0 Billion in Three Years



Gasoline Market Share



● Gasoline market share (including Seibu Oil Co., Ltd.)

- ▶ Expand service station network
- ▶ IT integration aimed at business innovation
- ▶ Expansion into renewable energies



Haruyuki Niimi, Chairman (Representative Director), and John S. Mills, President (Representative Director)

The 2003 Year-End Business Environment and Showa Shell's Performance

4 The business environment for the oil industry in the fiscal year ended December 31, 2003 offered plenty of potential justifications for flat business results: soaring crude oil prices, fears of an oil shortage with the war in Iraq, concerns about fuel oil supply for power generation, and weak demand due to the outbreak of severe acute respiratory syndrome (SARS) and the unusually cool summer. The Showa Shell Group, however, did not have to avail itself of such rationalizations. Showa Shell not only exceeded the ¥30 billion in profit promised to shareholders at the beginning of the year, but also surpassed the ¥35 billion revised forecast given in the interim results report, delivering consolidated ordinary income for the year of ¥38.1 billion. Consolidated ordinary income was strong even after factoring in current cost of supply (CCS), an index of actual procurement costs that excludes the effects of fluctuations in crude oil prices on inventory value which is used by Showa Shell and the Royal Dutch/Shell Group to forecast future earnings and evaluate performance. At ¥36.3 billion, consolidated ordinary income on a CCS basis made solid gains in fiscal 2003, topping last year's figure of ¥29.3 billion by 24 percent.

Although proud of these successes for Showa Shell, we remain sober about changes in the market. In fiscal 2003, our rivals began to close the significant gap in cost competitiveness that we have long enjoyed. In 2004, reestablishing and maintaining Showa Shell's undisputed edge over the competition is a key priority. We are committed to pursuing dramatic cost reductions and improving profitability—surpassing all our competitors in both the speed and scale of these efforts.

Showa Shell's Medium-Term Management Plan (2003–2005)

■ Pursuing Sustainable Growth-Progress in Fiscal 2003

In fiscal 2002, the Showa Shell Group moved decisively into the second stage of its corporate reform program. During the

first stage, we significantly improved the Group's financial position and generated strong cash flows. In the second stage, we are focused on reinvesting these funds in growth sectors and converting these investments into sustainable corporate growth. In fiscal 2003, the initial year of the Medium-Term Management Plan (2003–2005), Showa Shell took specific steps to address the following three priorities.

1. Growth in Core Businesses That Are Primary Revenue Sources

Over the three years covered by the Medium-Term Management Plan, we are enhancing sales strength and profitability by concentrating management resources in our core downstream oil business (refining and sales of oil products). Specifically, we are working to increase sales of Shell Pura, our new high-octane gasoline, which has been very popular with customers since its release in fiscal 2002. We are also offering various value-added services to customers through the Shell Starlex Card. In September 2003, we reached agreement on equity participation in Marubeni Energy Corporation, a move that has strengthened our sales network by giving us access to Marubeni's vast customer base.

Powered by these and other initiatives, Showa Shell achieved a 14.1 percent share (including Seibu Oil Co., Ltd.) of total 2003 gasoline sales in Japan, reaching third place in terms of market share for this high-value-added product that gives us a direct connection with the end-consumer. (Showa Shell had a 14.7 percent share of the high-octane gasoline market.)

2. Enhanced Competitiveness through Further Structural Cost Reductions

Beginning in fiscal 2003, the Showa Shell Group set out to cut structural costs by at least ¥5 billion each year, for a total three-year reduction of ¥15 billion. We went ahead of plan in fiscal 2003 by scaling back ¥6.5 billion of structural costs, a significant figure when viewed in the context of 1995 total costs of ¥117.7 billion.

Our new Core Business Integration System (new SAP R/3), a program designed to provide the infrastructure for our business process reengineering (BPR) efforts, became fully operational in October 2003. We have also speeded implementation of our target strategies for growth by further raising operational efficiency and ensuring that information and knowledge is shared and practically applied at every level of the Company to accelerate decision-making processes.

3. Laying the Foundation for the New Businesses of the Future

In tandem with the comprehensive measures taken to bolster profitability in Showa Shell's core downstream oil business (refining and sales of oil products), we are also working to lay the foundation for enterprises in new fields with strong potential for future growth. One example is K.K. Ogishima Power, a firm jointly established in August 2003 by Tokyo Gas Co., Ltd. and the Royal Dutch/Shell Group. Beginning in fiscal 2009, Ogishima Power will generate 1.2 million kW of electricity using liquefied natural gas (LNG). The firm has already begun environmental assessments and other preparations for the launch of operations.

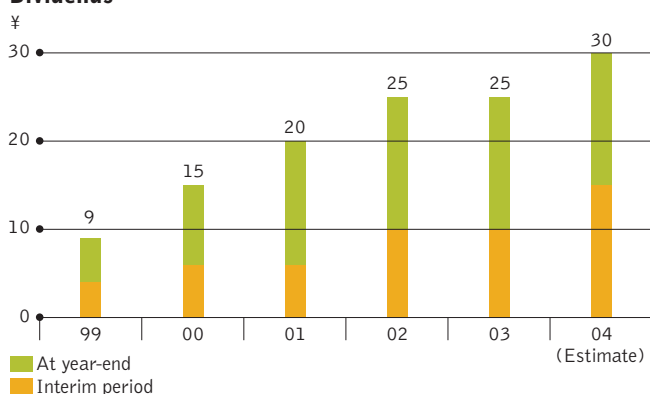
To ensure that Showa Shell is in a strong position when the age of fuel cell vehicles arrives, we have opened the Ariake Hydrogen Station and initiated other hydrogen-supply projects. We are also involved in substantive testing on public roads of Japan's first gas-to-liquid (GTL) fuel (a liquid fuel synthesized from natural gas). The proactive investment of management resources in sectors where we expect higher growth potential and asset efficiency, primarily in environmental businesses and energy-related sectors such as new fuels, is an important component of our strategy for new business development.

Working Together with Stakeholders

■ Safety and Legal Compliance: Our Top Priorities

Operational safety and total compliance with laws and regulations in every aspect of our corporate activities are top priorities for the Showa Shell Group. Sadly, large-scale accidents, disasters, and violations of the law shook the Japanese oil industry in 2003. Although Showa Shell was not directly involved, we do not consider these events to be insignificant for our own operations. We are fully aware of how vital it is that we protect our reputation as a highly respected corporate citizen. We are dedicated to ensuring that the Group strictly complies with all ethical standards, working consistently to raise the bar with regard to health, safety, security, and environmental conservation.

Dividends



■ Human Resource Development and Corporate Governance

The key to realizing the strategies and management plan outlined above clearly lies in our efforts at human resource development. Employees that demonstrate professionalism, leadership skills, and a strong commitment to achieving the goals of the company are vital to our success. We are striving to ensure that personnel and human resource development strategies emphasize and fully utilize the great diversity our employees bring to the Group. We have management programs focused on nurturing the individual abilities of each Group employee, increasing the capacity of our organization as a whole to do this, and encouraging a corporate culture that will help us to meet these goals.

Showa Shell is striving to build a system of corporate governance that enables us to make and carry out appropriate business decisions fast enough to avoid missing opportunities, even in today's uncertain business environment. Another of our key aims is to ensure that our operations are transparent to all stakeholders. In April 2003, we undertook a major overhaul of our management structure, with the primary objective of more clearly defining the roles, responsibilities, and authority of our directors and executive officers. The results have been extremely effective in improving the way we function together as a team. Further investigations scheduled for 2004, however, will be designed to determine the optimum business mechanisms for our specific corporate culture, as well as the Japanese business environment in general, and include the possibility of restructuring Showa Shell into a committee-run corporation.

■ Delivering Sustainable Growth in Total Shareholders' Return

Consistent increases in total shareholders' return are essential to achieving our goal of becoming the leading company in the Japanese oil industry. Raising the stock price and increasing dividends are both keys to meeting our shareholders' expectations of growing returns. We have made steady gains in total annual cash dividends per share since the ¥9 recorded in fiscal 1999. We project an additional ¥5 increase in 2004, which will bring the dividend up from the ¥25 we posted in fiscal 2003 to a total annual cash dividend of ¥30 per share.

On behalf of everyone at the Shell Group, we pledge to move forward as one with the shift to dynamic growth, the primary aim of the second stage of our corporate reforms. We will work as a team to achieve the goals we have set in the Medium-Term Business Plan. We remain committed to delivering consistent increases in revenue, profit, and dividends, and hope that our unceasing efforts will continue to win the trust and support of all the shareholders of the Showa Shell Sekiyu Group.

Haruyuki Niimi
Chairman, Representative Director

John S. Mills
President, Representative Director



Growth Strategies as a Leading Company

Building the Market's Favorite Brand

Everything Starts with the Customer

Keeping Engines Clean for Top Performance and Environmental Protection: Brisk Sales of High-Octane Shell Pura

6

It is only natural that drivers want to keep their cars running at top performance for as long as possible, and Showa Shell has the right solution: Shell Pura, a high-octane gasoline that keeps car engines dramatically cleaner than regular gasoline. Continuous use of this high-octane gasoline ensures that the engine continues to perform to its full potential, improving acceleration by removing buildup of deposits inside the engine. Keeping the engine clean also significantly reduces the harmful gases in automotive emissions, making Shell Pura an environmentally friendly choice.

Showa Shell has been expanding the market availability of this gasoline since sales began in the greater Tokyo metropolitan area and two other prefectures in March 2002. In 2003, Shell Pura came to western Japan (Yamaguchi, western Hiroshima, Fukuoka and Saga) and to Niigata, and it is now available in 21 prefectures around the country. It currently accounts for 70 percent of Showa Shell's total high-octane gasoline sales. With the steadily growing support of customers, Shell Pura's share of total Showa Shell sales has also grown. The Company's success with this product has given a new boost to the performance of the Showa Shell Group as a whole, and enhanced the front-line customer appeal of the Showa Shell brand. Shell Pura is a particularly promising tool for increasing the Company's profitability and competitiveness, and Showa Shell will continue to expand its sales area in Japan in 2004.

Meeting Customer Needs: Providing High-Value-Added Services

As part of Showa Shell's strategy to grow automotive businesses that provide lifetime support for customers' cars, the Company offers Shell Car Inspection and Shell Repair at affiliated service stations.

In addition to the industry's first free-of-charge road service package, Shell Car Inspection delivers customer support through maintenance guarantees that carry them through to their next car inspection. Showa Shell also offers a full array of other automotive services designed for maximum customer convenience, all at reasonable prices. The Company's toll-free Shell Contact Center and website are always available to assist customers with rough estimates and appointment scheduling. With Shell Repair, customers enjoy readily available,

R&D at Showa Shell

Shell Pura: Enhancing performance through cleaner engines

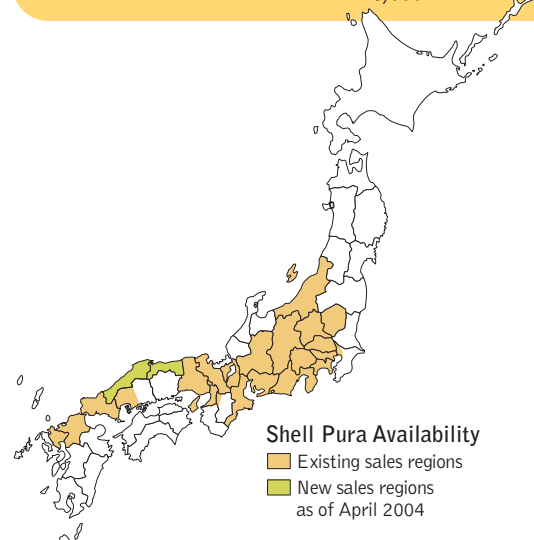
Two years of study and R&D by the Showa Shell Group culminated in the development of a new engine cleaner that offers outstanding cleaning performance. By removing carbon accumulation on intake valves, Shell Pura regains lost engine performance and delivers improved acceleration performance.



Intake valve after 16,000 km using regular gasoline



Same intake valve after using Shell Pura for 8,000 km





to Position Showa Shell



Shell Starlex Card (left), Shell Business Card (above)

clear-cut, quick and hassle-free repair service offering metal and paint finishing. Showa Shell's affiliate network of select factories throughout Japan and Internet processing of repair requests give member service stations easy nationwide access to quick, high-quality repairs.

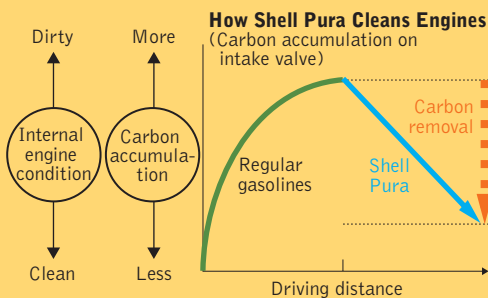
Credit Card Strategy: Upgrades

As Japan moves into an age of full-fledged, self-service gas stations, credit card strategy is becoming increasingly important to Showa Shell. The Company has transformed its X-Card, already one of the most used in the industry, into the Shell Starlex Card, a redesigned full-function credit card that offers a variety of new services asked for by customers in comprehensive surveys. In the three months following the October 2003 introduction of the Shell Starlex Card, the Company registered 160,000 new card members, far exceeding initial projections.

In another major step in its credit card strategy, Showa Shell has also upgraded the Shell Business Card, its card for corporate clients.



Carbon accumulation leads to irregular combustion within engines, and the release of hazardous emissions containing carbon monoxide and hydrocarbons. Removing carbon accumulations helps to significantly reduce emissions.



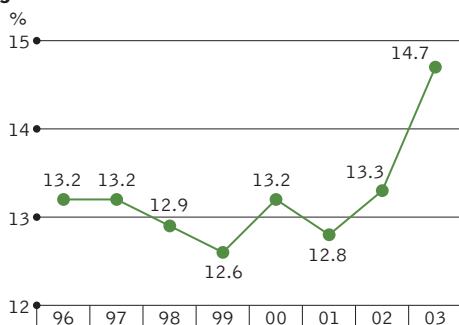
Providing Information in a Timely, Smooth Manner

The Showa Shell Customer Service Center, a comprehensive unit that integrates the Company's general customer-support team with staff who deal with orders and inquiries from dealers and clients,

is designed to maximize positive interaction between the Showa Shell Group and its customers. The center not only enables Showa Shell's expert staff to ensure that customers are fully satisfied by responding immediately to their problems, but also provides a direct interface with customers and their needs, which yields smoother daily management and enhanced business opportunities.

In addition, the Company's Lube Customer Service Center and Helix Hotline, a service station oil consultation office, respond daily to inquiries from corporate clients and general customers regarding Shell lubricants. The solid technical support delivered by the center and hotline contributes significantly to raising customer satisfaction and reinforces the sales appeal of the Company's products.

High-Octane Gasoline Market Share



Aiming for Zero Accidents: Service Station Managers and Lorry Drivers Discuss Concerns

Showa Shell recognizes that the safe delivery of oil products to customers is the greatest priority, to further enhance the reputation of the Showa Shell brand. To secure the safety of its supplies, the Company hosted the industry's first discussions between service station managers and lorry drivers in

September 2003. Focusing primarily on ensuring safety and successful crisis management, the spirited discussion provided new impetus for a united zero-accident campaign by Showa Shell, transportation firms and service stations. To build on the positive results of this first meeting, held in Yokohama, Showa Shell is now hosting similar meetings across Japan.

Expanding Core Businesses to Increase Profitability and Growth Potential

Reinforcing Value Chain Marketing Power and Competitiveness

Showa Shell's strategies to build a brand that is the first choice of customers have proven effective. Showa Shell has succeeded in differentiating its brand in the market, especially in the

highly profitable arena of gasoline sales, where the Company has seen growing sales volume and market share every year since 2000. The Company secured a 14.1 percent share of gasoline sales in Japan in 2003, moving into third position in the industry. The enhanced competitiveness of the entire Group, including Showa Shell's affiliated dealers, has contributed to this robust performance. All the companies of the Showa Shell Group are committed to working together to continue to increase the cost-efficiency of the Group's value chain—including the entire process from procurement of crude oil to product marketing at service stations.



Self-service station

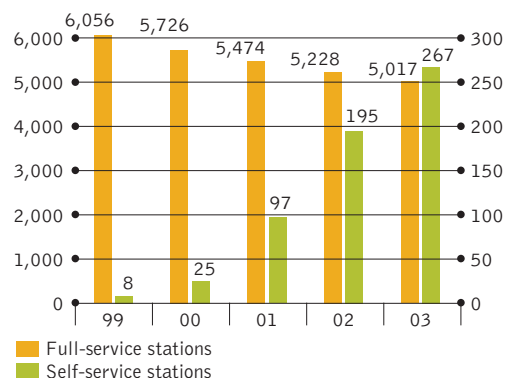
"Selection and Concentration"—The Key to Discriminating Service Station Investment

Although the number of self-service stations in the Japanese market continues to grow, signs of a slowdown in the rate of new openings are beginning to emerge.

The current economic situation in Japan means the "survival of the fittest" for self-service stations, just as it has in other sectors.

In selecting where to concentrate investment of resources, Showa Shell considers its customers' needs, the characteristics of the region, and the economic viability of the venture. The Company has prioritized investment in its network of service stations, a strategy that has succeeded in differentiating its stations from those of other companies.

Number of Full- and Self-Service Stations



Growth in Other Sales Categories

The Company's Lubricant Division delivers more than 1,000 types of lubricants, an extensive product lineup that allows Showa Shell to meet the constantly changing needs of the market. Currently, the Company is stepping up the marketing of its Shell Helix brand top-class automotive lubricants and other high-value-added product series.

In the liquefied petroleum gas (LPG) market, Showa Shell plans to introduce the world-renowned Shell Gas brand in Japan. The Company will increase marketing efforts step by step to make the most of this brand's strength.



Strategic Investments for Sustainable Growth

In the retail marketing business, a core business for Showa Shell, the Company reached agreement on equity participation in the Marubeni

Energy Corporation (33.4 percent equity ownership), an energy company with a sales network of more than 750 service stations nationwide. Showa Shell's expertise in the areas of structural reform and retail sales will enhance Marubeni Energy's marketability and cost-competitiveness, which will in turn contribute significantly to increasing growth potential—the primary objective of the second stage of Showa Shell's corporate reform program.

In February 2004, Showa Shell decided to expand its equity ownership in Seibu Oil Co., Ltd., a Group refinery, from 24.5 to 38.0 percent. As the chief independent shareholder in Seibu Oil, the Showa Shell Group will be able to raise the efficiency of refining operations at all three of its refineries. This, in turn, will give an added boost to the cost-competitiveness and profitability of the Group.

In March 2004, the Showa Shell Group acquired all the rights to the Pennzoil brand for the Japanese market. Showa Shell will continue to take advantage of business opportunities offered by mergers, acquisitions, and alliances to strengthen its competitiveness in core businesses.



Shell Helix Ultimate Performance Lubricant

New Businesses for Sustainable Corporate Growth



LNG tanker

Power Generation with Environmentally Friendly Liquefied Natural Gas and On-Site Power Generation Business

Showa Shell established K.K. Ogishima Power in August 2003 in partnership with Tokyo Gas Co., Ltd. and Shell Gas B.V. Ogishima Power will generate 1.2 million kW of electric power using liquefied natural gas (LNG) and is currently laying the

groundwork to begin operations in 2009. The Royal Dutch/Shell Group brings to the partnership its considerable edge over competitors in the area of LNG supply and the success of its power generation business in countries around the world, while Tokyo Gas offers its expertise in gas procurement and supply and electricity retailing. Based at Showa Shell's shorefront landholdings on Tokyo Bay, this joint venture will supply clean, environmentally friendly, and cost-effective power to Japan's biggest power-consuming region.

On Site Power Co., Ltd., established jointly by Showa Shell, Marubeni Energy Corporation, and Orix Corp., conducts Showa Shell's on-site power generation business, and Toa Oil Co., Ltd., a Showa Shell Group affiliated refinery, is engaged in business development in the independent power producer (IPP) and electric power generation fields.



Fuel cell bus parked at Ariake Hydrogen Station

New Age Fuels | Hydrogen Fuel Projects

Showa Shell participates in the Japan Hydrogen and Fuel Cell Demonstration Project (JHFC) sponsored by the Ministry of Economy, Trade and Industry (METI), as well as the Tokyo Metropolitan Hydrogen Supply Station Pilot Project. In addition, the Company opened the Ariake Hydrogen Station in Tokyo in June 2003. The Ariake Hydrogen Station, the first in Japan capable of providing hydrogen in either liquefied or compressed gas form, supplies the Tokyo Bureau of Transportation with hydrogen for its fuel cell shuttle buses and other vehicles. Testing to evaluate efficiency and safety at the station are currently underway.

The Central Research Laboratory is working on the development of a hydrogen production system that utilizes the Royal Dutch/Shell Group's trademark catalytic partial oxidation (CPO) technology in a project commissioned by Japan's Petroleum Energy Center (PEC).

Gas-to-Liquid Fuel Tests Showa Shell took Japan's first gas-to-liquid (GTL) fuel to the nation's public roads for tests in November 2003. GTL, a clean liquid fuel synthesized from natural gas, contains almost no sulfur or benzene compounds. The Company will work closely with the Royal Dutch/Shell Group, a global leader in GTL technology, to bring this fuel to market as quickly as possible.



Field test using GTL fuel

Solar Battery Power- Restructuring for Aggressive Business Expansion

In 2004, Showa Shell "recharged" its solar battery power business, conducted to date by Showa Solar Energy K.K., by restructuring the business and renaming the company Shell Solar Japan Ltd. The new firm brings the strong brand value and world-

wide strategy of the Royal Dutch/Shell Group, which has the second-highest share in this global market, to its mission of expanding this business in Japan.

Environmental Businesses

Showa Shell carefully manages the risk of environmental contamination for its entire service station network using Network Environmental Risk Analysis (NERA), a method of inspecting and analyzing soil contamination developed by the Royal Dutch/Shell Group. This expertise has allowed Showa Shell Group companies to enter businesses related to preventing soil pollution, such as soil testing and analysis.

Showa Shell also participates in the "credit (emissions reduction unit) trading and transfer trial phase business" conducted by METI in Japan to prepare for the implementation of a CO₂ emissions trading project in the near future.



Airport installation of solar power generation system



Continuous Reductions in Structural Costs/Building a Solid Foundation for Sustainable Growth

Competitiveness Enhanced by ¥117.7 Billion Reduction in Structural Costs

In fiscal 2003, Showa Shell cut structural costs by ¥6.5 billion, exceeding the target of ¥5 billion set in its plan for the year.

Since 1996, Showa Shell has scaled

back structural costs by a cumulative ¥117.7 billion, locking in strong cost-competitiveness for the future. Showa Shell's competitors, however, have also started taking major steps to lower structural costs. Showa Shell will meet this challenge by continuing with annual reductions of ¥5 billion in 2004 and beyond, thus maintaining its lead over the competition.

In 2004 and beyond, Showa Shell will implement the following major initiatives to reduce structural costs:

- Promote business process reengineering by implementing the new SAP system.
- Expand the use of driver-controlled deliveries for lorries and nighttime deliveries.
- Reduce domestic forwarding costs.
- Enhance the Company's joint procurement efforts.

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Streamlining Operations to Maximize Profitability

During the first stage of Showa Shell's corporate reform program, the Company set out to achieve the key goals of cutting back its

involvement in refining and strengthening its sales capability, steps it began to implement ahead of the competition. As a result of these efforts, Showa Shell has achieved a supply-short position where sales exceed refining capacity. In fiscal 2003, the Showa Shell Group continued to lead the Japanese industry by achieving a 93.4 percent capacity utilization rate for its refinery equipment, significantly better than the industry average of 83.3 percent. These tactics have given the Company a high degree of flexibility, enabling a primary focus on profitability in its refinery operations. The Yokkaichi Refinery operated by consolidated subsidiary Showa Yokkaichi Sekiyu Co., Ltd. and the Keihin Refinery operated by affiliate Toa Oil Co., Ltd. lead other refineries in Japan in terms of both cost-competitiveness and profitability. In addition, Showa Shell has increased its stake in Seibu Oil Co., Ltd., a move that has contributed to further enhancement of operational efficiency at all three of the Showa Shell Group's refineries.

Showa Shell also continues to lead the Japanese market in terms of the production rate of white oil products, including gasoline, kerosene, and diesel oil products, which offer high added value. This high ratio of value-added products is one of the keys to the high earnings structure now in place at Showa Shell.

Making the Most of Strategic Alliances

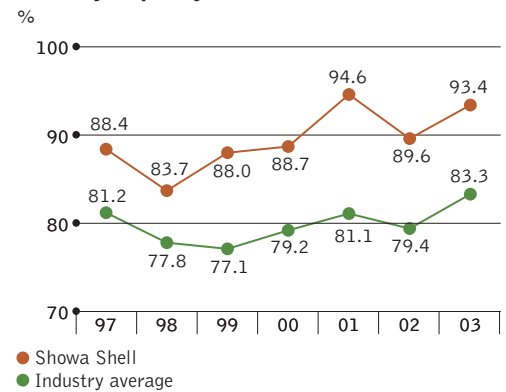
Showa Shell is involved in a broad-based strategic partnership with Japan Energy Corporation, with whom it has partnered to create JS Initiative, Ltd.

and JLS Corporation. At these joint venture firms, Showa Shell is undertaking cost-reduction initiatives by expanding its use of barter arrangements and joint procurement of crude oil and materials, as well as working to improve efficiency through order-based vehicle dispatch. The Showa Shell Group is also expanding its initiatives to collaborate with other oil companies in the logistics arena, and pursuing greater joint procurement efforts within the Group.



SAP system

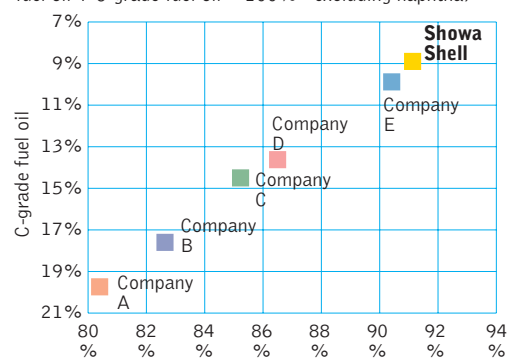
Refinery Capacity Utilization Rate



Fuel Oil Sales: White Oil Sales Ratio

(2003)

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



Source: Petroleum Association of Japan



Sustainable Growth Together with Society/ Corporate Social Responsibility in Action

Fulfilling Showa Shell's Corporate Social Responsibility

Management Philosophy and Basic Principles

Showa Shell's stated philosophy on long-term growth declares: "To enable Showa Shell to make ongoing contributions to society, the Company will strive to achieve sustainable growth by building a solid management platform and healthy corporate structure, while continuing to secure a reasonable profit." This philosophy of responsible growth forms the basis for the Company's Code of Conduct, a set of guidelines put in place to ensure that Showa Shell remains more than worthy of the full trust of all stakeholders.

The Code of Conduct offers a specific description of the Company's principles, in such categories as the following:

- The responsibilities that each Showa Shell employee should recognize.
- The profitability and efficiency needed to sustain the Company.
- The corporate ethics to be adhered to as a responsible member of society.

In addition, Showa Shell has established a Basic Policy on Safety, Health, and Environmental Conservation. This policy expands upon the Company's commitment to carry out safety, health, and environmental management, which is part of the mandate of the Code of Conduct.

Showa Shell has also created a Basic Policy on Diversity to make clear the Company's acceptance of diverse values and its respect for the personal traits and unique characteristics of each individual, as well as to raise awareness among employees regarding the issue of diversity. The Company recognizes that individuals with diverse backgrounds and experiences can inspire and complement each other in creating a vibrant organization, and are essential to increasing the value of the corporation over the long term.

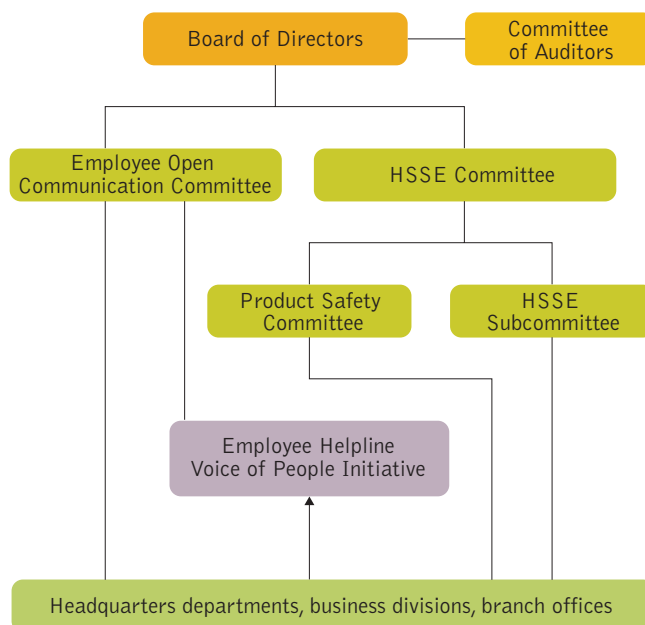


Organizations Dedicated to Social Responsibility

Showa Shell has sought to create a transparent corporate organization and build a dynamic workforce. Toward this end, the Company has created an Employee Open Communication Committee that is responsible for overseeing the Employee Helpline and the Voice of People initiative. This initiative is designed to enable employees to voice their concerns, opinions, and suggestions, which in turn can be directly incorporated into the Company's management plans.

The Health, Safety, Security, and Environment (HSSE) Committee at Showa Shell is responsible for overseeing the Company's efforts to promote its Basic Policy on Safety, Health, and Environmental Conservation, with an additional emphasis on promoting security. The HSSE Committee is served by subcommittees such as the Product Safety Committee and HSSE Subcommittee, which endeavor to raise awareness, educate employees, and conduct drills related to a wide range of issues including disaster prevention, occupational safety and health, product safety, and environmental conservation.

Showa Shell's human resource departments are primarily responsible for carrying out initiatives related to the Company's Basic Policy on Diversity, by striving to attract talented individuals and offering them suitable positions within the Company. These departments are also responsible for ensuring that the Company provides a full range of educational programs, as well as for promoting initiatives to help employees balance their work and home lives.



Protecting the Global Environment and Contributing to a Sustainable Society

Building Environmental Management Systems as Part of a Comprehensive Approach to Ensuring Safety and Environmental Conservation

The Showa Shell Group utilizes Health, Safety, Security, and Environment (HSSE) management systems as part of a comprehensive approach to risk management that targets complete prevention of disasters and accidents. HSSE management systems have been adopted within Showa Shell's refinery and logistics businesses, at the Company's headquarters, and at all branch offices and major affiliates of the Showa Shell Group.

Showa Shell has taken various initiatives to enable a more systematic approach to risk management. These efforts include the use of Risk Assessment Matrices (RAM) to conduct risk analysis, and the Hazard and Effect Management Process (HEMP), which enables the Company to identify and manage potential disaster causes. In addition, Showa Shell has established an HSSE Department to monitor HSSE issues at each of its offices and conduct reviews of HSSE issues at the management level.

In fiscal 2003, Showa Shell implemented numerous disaster prevention drills at various Company locations including participation in marine accident emergency response drills in Tokyo Bay and national crisis response drills. The Company also took part in the Aichi Prefecture Petrochemical Complex Disaster Prevention Drill at the Hekinan LPG base and conducted a fire prevention drill at its asphalt plant in Mie Prefecture.

12



Aichi Prefecture petrochemical complex disaster prevention drill (October 2003)

ISO 14001 Certification and Annual Environmental Report

Prior to establishing the company's HSSE management systems, the Showa Shell Group acquired ISO 14001 certification at each of its refineries and its Hekinan LPG base. Showa Shell also publishes an annual environmental report entitled *Moderate*, which provides an overview of the Company's



progress in terms of reducing substances of environmental concern and industrial waste, and in terms of its efforts to promote recycling, energy conservation, and risk management for soil pollution.

Start of Nationwide Sales for Low-Sulfur Fuel

Showa Shell is also committed to developing and supplying clean energy that is friendly to the environment. In 2000, Showa Shell began offering a diesel oil with a sulfur content of less than 50 ppm in the Tokyo area. In April 2003, Showa Shell began offering low-sulfur diesel oil nationwide, except for Okinawa and other outlying islands. The start of nationwide sales for low-sulfur fuel was approximately two years ahead of the timetable set by government regulations.

In fiscal 2004, Showa Shell will offer sulfur-free gasoline and sulfur-free fuel with a sulfur content of less than 10 ppm. The Company also is promoting joint development projects and collaboration within the Showa Shell Group that will lay the groundwork for rapid commercialization of environmentally-friendly next-generation fuels such as hydrogen fuel for fuel cells, gas-to-liquid (GTL) fuels, and solar power generation.



S 50 low-sulfur (50 ppm) diesel oil

Contributing to Society through Solar Power Generation

Showa Shell's social contributions include initiatives to promote solar power generation in overseas areas without electricity. In addition to supplying equipment, the Company's initiatives involve sharing both technology and operating expertise in support of both regional autonomy and sustainable growth.

Showa Shell has been providing Thailand with solar power generation equipment for many years. As a result of this highly acclaimed initiative, in 2003 the Thai government committed to supplying 300,000 homes with solar cells in areas without access to electricity. Showa Shell has also participated in similar projects in Nepal and the People's Republic of China.



Solar power generation system in Libon Island, Thailand

Contributing to Society in Many Practical Fields

Supporting Young Environmental Researchers

The Showa Shell Sekiyu Foundation for Promotion of Environmental Research was established in 1995 to address the issue of a long-term, stable relationship between human beings and nature. Toward this end, the Foundation subsidizes natural and social sciences research related to environmental issues and strives to advance academic scholarship and social development.

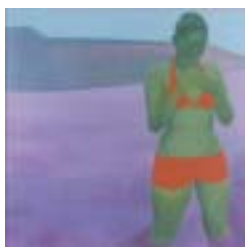
In fiscal 2003, the year of the Foundation's ninth anniversary, hundreds of applications were received for support of study in two fields: innovative "seed research" related to the conservation of local ecologies and the global environment, and specific "general research" projects dealing with the preservation of a stable relationship between human activity and nature. After rigorous screening, the Foundation approved subsidies for 51 studies, with priority given to those proposed by younger researchers.



Presentation ceremony for 2003 subsidy awardees

The Shell Art Prize: Opening Doors for Young Painters

The Shell Art Prize/Showa Shell Modern Art Prize, first awarded in 1956, is a prestigious honor in the Japanese art world. Reintroduced as the all-new Shell Art Prize in 2003 with the goal of discovering the next generation of young artists. The art competition was open to the general public, with entries accepted from artists 40 years of age or under. The competition received 1,665 pieces submitted by 1,002 artists, and the exhibition of award winners held in January 2004 also attracted a large



Grand Prix runner-up prize winners
Top: Kyodatsu (*Collapse*) by Yukari Tsuji, Bottom: *Untitled* by Kanno Sakan



number of visitors.
The Shell

Art Prize is a flagship project in the Showa Shell Group's efforts to contribute to society, and Showa Shell remains committed to continuing to use the prize to help discover talented Japanese artists with great potential for future success.

Christmas Lectures Inspire Future Scientists

Showa Shell is a cosponsor of the Christmas Lectures with the Royal Institution of Great Britain, launched in the United Kingdom in 1826 to introduce children to the fun of "science." These courses are held in the United Kingdom each year around Christmas time, and an identical lecture has been given in Japan during summer vacation the following year ever since 1990. The fiscal 2003 lecture took place in Tokyo and Oita, and featured Professor Anthony Ryan from Sheffield University in the United Kingdom. Professor Ryan addressed the topic of "Materials: The Miracle of Chemistry," using experiments with everyday materials to make chemistry easy for the students to understand. Every year, the Christmas Lectures bring scientists who are at the top of their fields to Japan to teach children about the wonders of science.



Internship Program

Since 2001, Showa Shell has operated an internship program that enables students to gain work experience in a field related to their current area of specialization or future plans. In fiscal 2003, the Company welcomed 19 Japanese student interns to 11 different departments over a two-week period in July and August.

Refugee Assistance

Providing office space free of charge is only one of the ways in which Showa Shell has supported the refugee assistance activities of Refugees International Japan (RIJ) over the 25 years since its foundation. RIJ's "Light Up the Life of a Refugee Child" 2003 fundraising campaign, the 15th such campaign, began December 11 and ran for a week. In addition, Showa Shell and its group companies in Japan participated in the campaign lamp-lighting ceremony. Showa Shell will continue to support the refugee assistance activities of RIJ.

Shell Museum Renovated

The Shell Museum, located on the first floor of Showa Shell's head office building, has four parts (motor sports, the Memories of Shell exhibit, the Shell shop, and a café), and also features Formula One-related exhibits and events with guest Formula One racers. In fiscal 2003, Showa Shell renovated the Museum, resulting in a more open and sophisticated environment, and reopened it with plans for even better exhibits and events.



Board of Directors and Corporate Auditors



(From left): Hisao Nozaki, Yasuo Murayama, Roy D. Waight, Yoshihiko Miyauchi, Haruyuki Niimi, Takako Mohri, John S. Mills, Akio Kioi, Masayoshi Satake, H. K. Lim, and Shigeya Katou

Chairman, Representative Director

Haruyuki Niimi

President, Representative Director

John S. Mills

Vice Presidents, Directors

Masayoshi Satake

Roy D. Waight

Managing Directors

Shigeya Katou

Yasuo Murayama

Directors

H. K. Lim

Yoshihiko Miyauchi

Full-Time Auditors

Hisao Nozaki

Takako Mohri

Auditor

Akio Kioi

(As of March 30, 2004)

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	4052-2, Nakatsu, Aikawa-machi, Aiko-gun, Kanagawa 243-0303	Tel: (046) 285-0564
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	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-8518
Kanagawa	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-7301
Saitama	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-7302
Chiba	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-7303
Kanto	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	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	1-5-2, 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	1-3-2, Kotobuki-cho, Takamatsu, Kagawa 760-0023	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
Management Terminals		
Management Terminal (Tokyo)	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-8531
Management Terminal (Osaka)	2-5-8, Minami-senba, Chuo-ku, Osaka-shi, Osaka 542-0081	Tel: (06) 6271-2411
Management Terminal (Yokkaichi)	1, Shiohama-cho, Yokkaichi, Mie 510-0851	Tel: (0593) 46-2418
Management Terminal (Seibu)	5, Oaza-Nishioki, Onoda, Yamaguchi 756-0885	Tel: (0836) 88-0622
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.	38.0	Petroleum refining
Showa Shell Sempaku 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.	52.0	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 Overseas Oil Development Co., Ltd.	100.0	Mining, development, production and sales of petroleum and natural gas
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
Shell Solar Japan Ltd.	50.0	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 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
Sallis 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
K.K. Ogishima Power	24.5	Planning and study of an electricity generation business by LNG

Ten-Year Summary of Selected Financial Data

Years ended December 31

	2003	2002	2001
Consolidated			
Net sales	¥1,726,917	¥1,620,359	¥1,664,954
Cost of sales	1,570,156	1,460,458	1,513,626
Gross profit	156,761	159,901	151,328
Selling, general and administrative expenses	120,787	123,501	123,274
Income from operations	35,974	36,400	28,053
Ordinary income	38,188	40,101	29,052
Net income	21,000	18,665	2,610
Total assets	882,299	916,690	909,902
Total shareholders' equity	234,773	221,604	212,168
Net income per share (yen)	¥ 55.96	¥ 49.69	¥ 6.95
Shareholders' equity per share (yen)	627.07	592.18	565.36
Return on sales (operating profit basis) (%)	2.1	2.2	1.7
Return on sales (net income basis) (%)	1.2	1.2	0.2
Return on assets (%)	2.3	2.0	0.3
Return on equity (%)	9.2	8.6	1.2
Equity ratio (%)	26.6	24.2	23.3
Number of shares outstanding at end of term (thousand shares)*1, 2	374,303	374,125	375,281
Non-Consolidated			
Net sales	¥1,669,555	¥1,556,178	¥1,590,027
Cost of sales	1,537,955	1,423,912	1,468,963
Gross profit	131,599	132,266	121,064
Selling, general and administrative expenses	100,586	101,788	100,703
Income from operations	31,013	30,477	20,360
Ordinary income	34,713	36,400	24,808
Net income	19,951	18,718	2,791
Total assets	808,068	834,065	802,248
Total shareholders' equity	221,879	209,560	200,154
Net income per share (yen)	¥ 53.22	¥ 49.87	¥ 7.43
Shareholders' equity per share (yen)	592.60	559.96	533.35
Return on sales (operating profit basis) (%)	1.9	2.0	1.3
Return on sales (net income basis) (%)	1.2	1.2	0.2
Return on assets (%)	2.4	2.2	0.3
Return on equity (%)	9.2	9.1	1.4
Equity ratio (%)	27.5	25.1	24.9
Number of shares outstanding at end of term (thousand shares)*1	374,357	374,179	375,281

*1 Treasury stock is excluded.

*2 The amount of treasury stock includes Showa Shell Sekiyu stock held by affiliates accounted for by the equity method.

Millions of yen

2000	1999	1998	1997	1996	1995	1994
¥1,639,475	¥1,365,478	¥1,324,752	¥1,588,067	¥1,600,067	¥1,441,176	¥1,515,313
1,477,361	1,218,732	1,171,788	1,408,789	1,404,723	1,225,954	1,293,874
162,113	146,746	152,964	179,278	195,344	215,222	221,439
124,442	133,692	144,446	164,434	174,646	186,383	171,459
37,670	13,054	8,518	14,844	20,698	28,839	49,980
38,913	12,191	7,223	12,901	15,225	21,993	26,920
12,499	1,828	1,999	6,387	6,054	13,802	13,670
1,002,146	974,916	992,282	1,049,931	1,071,464	1,001,676	884,663
216,349	197,562	199,711	201,479	198,536	195,926	181,607
¥ 33.19	¥ 4.85	¥ 5.31	¥ 16.95	¥ 16.06	¥ 39.94	¥ 41.72
574.77	524.25	529.95	534.64	526.84	519.93	554.20
2.3	1.0	0.6	0.9	1.3	2.0	3.3
0.8	0.1	0.2	0.4	0.4	1.0	0.9
1.2	0.2	0.2	0.6	0.6	1.5	1.6
6.0	0.9	1.0	3.2	3.1	7.3	7.8
21.6	20.3	20.1	19.2	18.5	19.6	20.5
376,409	376,850	376,850	376,850	376,850	376,850	327,696
¥1,566,431	¥1,290,794	¥1,249,616	¥1,495,688	¥1,492,428	¥1,354,414	¥1,400,551
1,430,759	1,170,391	1,123,146	1,339,118	1,323,613	1,166,324	1,197,752
135,672	120,403	126,469	156,570	168,814	188,089	202,798
103,115	114,735	123,605	146,067	156,447	165,992	158,201
32,556	5,668	2,864	10,503	12,367	22,096	44,597
37,684	12,058	8,266	12,382	12,178	19,087	24,571
9,016	3,763	4,106	7,014	4,810	9,980	12,684
831,645	796,494	779,626	827,913	837,178	790,787	753,615
204,085	189,812	189,440	188,725	185,135	183,753	177,123
¥ 23.93	¥ 9.99	¥ 10.90	¥ 18.61	¥ 12.77	¥ 28.88	¥ 38.71
541.55	503.68	502.69	500.80	491.27	487.60	540.51
2.1	0.4	0.2	0.7	0.8	1.6	3.2
0.6	0.3	0.3	0.5	0.3	0.7	0.9
1.1	0.5	0.5	0.8	0.6	1.3	1.7
4.6	2.0	2.2	3.8	2.6	5.5	7.4
24.5	23.8	24.3	22.8	22.1	23.2	23.5
376,409	376,850	376,850	376,850	376,850	376,850	327,696

Financial Strategy

Showa Shell has taken numerous actions to establish a sound financial position that permits the productive use of assets. Primary actions have been the sale and disposal of inefficient assets, minimizing working capital and interest-bearing debt, and the execution of policies aimed at maximizing earnings and cash flows. The Company will continue to take steps to strengthen its financial position. Concurrently, based on a rigorous examination of potential returns and growth prospects, the Company will consider making substantial investments in projects that management believes are needed to sustain growth.

Japan's Economy and the Operating Environment

During 2003, Japan's economy was held back as consumer spending remained flat amid consistently high unemployment. However, there were emerging signs of rebound from Japan's prolonged economic slump, primarily in the form of increasing exports. Crude oil prices climbed steadily early in 2003 due to tension in the Middle East and other factors. The price of Dubai crude oil exceeded US\$31 per barrel at one point, but then dropped rapidly following the start of hostilities in Iraq to reach approximately US\$22 when the war ended. The price of crude oil then moved upward again as OPEC cut its output due to fears about an oversupply of oil and as inventories of crude oil in the United States remained low. As a result, crude oil was US\$28 per barrel at the end of 2003, about the same as one year earlier.

The yen began 2003 at about ¥118 to the U.S. dollar and was relatively stable through the summer, remaining in a trading range of ¥116 to ¥122. The yen then gained strength from September onward, rising to about ¥107 to the U.S. dollar at the end of the year as the U.S. trade deficit grew and Japan's economy improved.

In Japan, sales of gasoline for automobiles remained solid, but demand for diesel oil fell due to a decline in the number of diesel-engine vehicles. Demand for kerosene used for heating was higher than in 2002 as temperatures in the first quarter of 2003, the primary heating season, were well below normal in Japan. Furthermore, while demand for fuel oil for general use remained soft, there was a sharp increase in demand for fuel oil for power generation because of a series of suspensions in operations at nuclear power stations.

Turning to petroleum products, prices were persistently low because of fierce competition that prevented companies from raising prices in a timely manner as the price of crude oil climbed.

Profitability

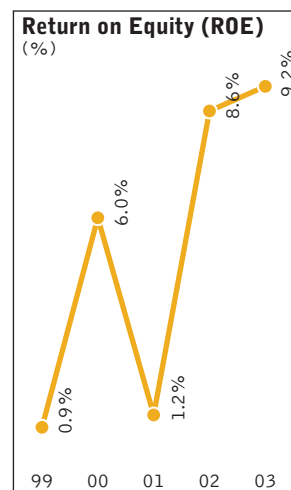
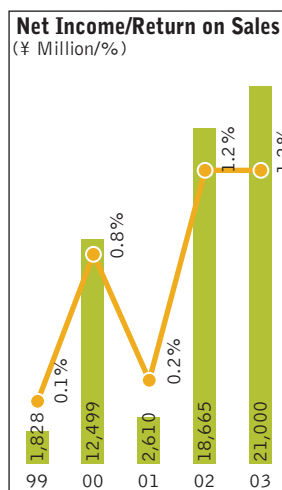
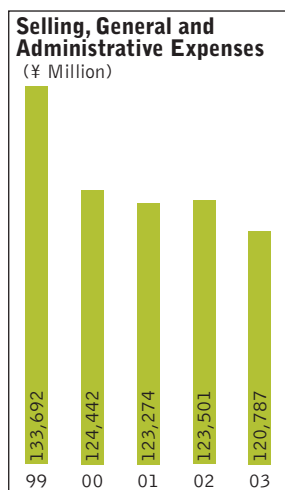
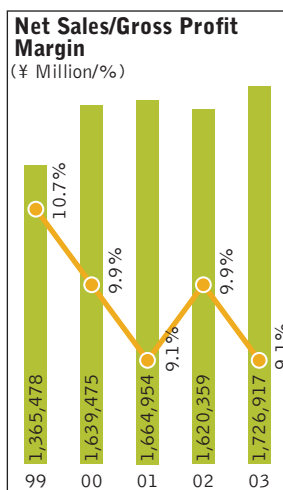
In this environment, the Showa Shell Group focused on the fundamental strategies of creating value in line with customers' needs, realigning its business processes and executing structural cost reductions. By enacting numerous business reforms covering all aspects of operations, progress was made toward building a sounder operating base and increasing earnings.

Consolidated net sales increased 6.6 percent to ¥1,726.9 billion, mainly a reflection of higher sales prices and growth in sales volumes of gasoline, kerosene and fuel oil for power generation.

Income from operations decreased 1.2 percent to ¥35.9 billion. The negative effect of delays in price increases to pass on the higher cost of crude oil was largely offset by cost-cutting initiatives and valuation gains on inventories. The decline in income from operations along with a lower exchange gain caused ordinary income to decrease 4.8 percent to ¥38.1 billion. However, ordinary income on a current cost of supply (CCS) basis, which excludes the effect of changes in inventory valuations, was up ¥7.0 billion, or 24.0 percent, to ¥36.3 billion. There was a substantial improvement in extraordinary items from a net special loss of ¥7.5 billion in 2002 to a loss of ¥1.2 billion. The main reasons were the posting in 2002 of a special reserve for repairs designated for scheduled equipment repairs at Showa Yokkaichi Sekiyu Co., Ltd. and Toa Oil Co., Ltd., and a 2002 charge for the reassignment of some employees of Showa Yokkaichi Sekiyu.

Due to these factors, net income after corporate, resident and enterprise taxes, with adjustments to deferred income taxes made by the tax effect accounting method, increased 12.5 percent to ¥21.0 billion. The return on average shareholders' equity (ROE) was 9.2 percent. Net income per share increased from ¥49.69 to ¥55.96.

Free cash flow, the sum of net cash provided by operating activities and investing activities, increased from ¥12.5 billion to ¥46.8 billion due to growth in operating cash flows. Total interest-bearing debt at the end of 2003 was ¥120.9 billion, ¥29.6 billion less than the ¥150.5 billion at the end of 2002, as the Showa Shell Group continued to strengthen its balance sheet.



Segment results were as follows.

Petroleum ▶ Total sales increased 6.7 percent to ¥1,710.7 billion and income from operations decreased 1.5 percent to ¥32.5 billion. Excluding the effect of inventory valuations, income from operations increased by ¥8.4 billion from ¥22.3 billion to ¥30.7 billion.

Real Estate ▶ In the building leasing sector, results were impacted by falling leasing rates for office space in central Tokyo due to the large volume of newly completed buildings, the so-called "2003 problem." Leasing income was further held back by lower occupancy rates in other large cities in Japan. As a result, total sales decreased 4.7 percent to ¥4.4 billion. Although steps were taken to cut costs and boost operating efficiency, income from operations was down 7.3 percent to ¥2.5 billion.

Others ▶ Results were soft in the sales and leasing of automobile-related products, and the construction of petroleum and other facilities. The result was a 0.3 percent decrease in total sales to ¥18.8 billion. However, an improvement in profit margins on sales of solar batteries led to a 37.2 percent expansion in income from operations to ¥0.8 billion.

Assets and Liabilities

Total assets decreased ¥34.3 billion to ¥882.2 billion. Current assets declined ¥17.8 billion to ¥394.9 billion, mainly because of measures to reduce trade notes and accounts receivable. Fixed assets decreased ¥16.5 billion to ¥487.3 billion, primarily because of a drop in property, plant and equipment resulting from sales of idle and inefficient assets.

Current liabilities decreased ¥51.4 billion to ¥490.4 billion because of a sharp decline in notes and accounts payable. The decline in long- and short-term borrowings, bonds, commercial paper and other interest-bearing debt continued as this figure fell from ¥150.5 billion at the end of 2002 to ¥120.9 billion, demonstrating the ongoing progress by the Showa Shell Group in building a stronger balance sheet.

Shareholders' equity increased ¥13.1 billion to ¥234.7 billion due to growth in retained earnings. As a result, the ratio of shareholders' equity to total assets improved by 2.4 percentage points to 26.6 percent. ROE increased 0.6 percentage point to 9.2 percent. Shareholders' equity per share increased from ¥592.18 to ¥627.07.

Cash Flows

Net cash provided by operating activities increased from ¥23.2 billion to ¥54.7 billion. This was mainly attributable to the growth in income before income taxes and minority interests, a decline in trade receivables due to initiatives to reduce receivables, and a decline in income taxes paid.

Net cash used in investing activities decreased from ¥10.7 billion to ¥7.8 billion. This was mainly the result of a decline in sales of idle assets, a decline in scheduled repairs at refineries, which is a component of payment for property, plant and equipment, and an increase in proceeds from sale of investments in securities.

Net cash used in financing activities increased from ¥30.4 billion to ¥39.1 billion. This was mainly attributable to ongoing progress in centralizing fund management and procurement activities for the entire Group. The most noteworthy change was a decrease in interest-bearing debt at subsidiaries.

Cash and cash equivalents as of December 31, 2003, including an increase of ¥0.3 billion due to newly consolidated subsidiaries, totaled ¥15.1 billion, an increase of ¥7.9 billion compared with the end of 2002.

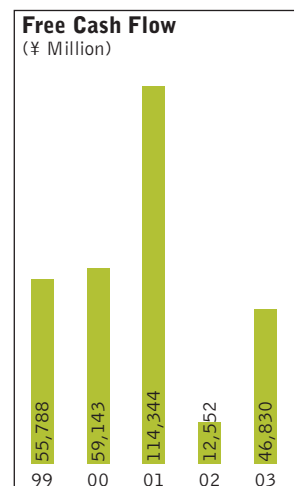
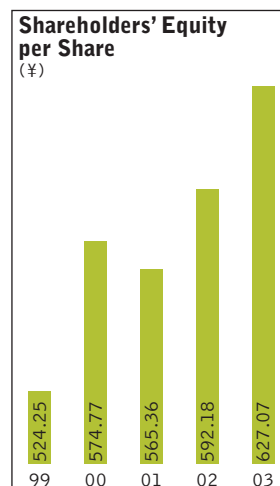
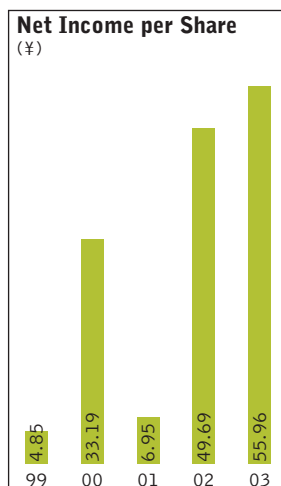
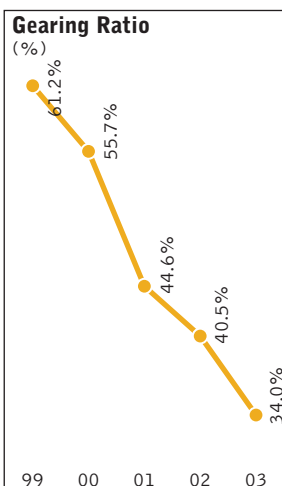
Dividend Policy

During 2003, the Company paid a year-end dividend of ¥15.00 per share and an interim dividend of ¥10.00 per share. The result was a total annual cash dividend of ¥25.00 per share, the same as in 2002. The payout ratio was 46.9 percent, and dividend return calculated using shareholders' equity was 4.3 percent.

Outlook for 2004

Based on forecasts of US\$26 for the average price of crude oil and an exchange rate of ¥110 to the U.S. dollar, the Group's business plan calls for consolidated net sales of ¥1,650.0 billion (¥1,580.0 billion on a non-consolidated basis), consolidated ordinary income of ¥32 billion (¥28 billion on a non-consolidated basis), and consolidated net income of ¥18 billion (¥16 billion on a non-consolidated basis). On a CCS basis, which excludes the effect of changes in inventory valuations, the Group forecasts ordinary income of ¥40 billion compared with ¥36.3 billion in 2003.

Regarding dividends, the Company plans to increase the annual dividend by ¥5.00 in 2004 to ¥30.00, the sum of interim and year-end distributions of ¥15.00 each.



Consolidated Balance Sheets

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
As of December 31, 2003 and 2002

	Millions of yen	
	2003	2002
Assets		
Current assets:		
Cash in hand and at bank	¥ 15,382	¥ 7,651
Notes and accounts receivable	219,482	237,934
Inventories (Note 3)	133,047	141,844
Deferred tax assets (Note 7)	5,702	4,925
Other current assets	21,752	21,523
Allowance for doubtful accounts	(431)	(1,103)
Total current assets	394,934	412,774
Fixed assets:		
Property, plant and equipment:		
Buildings, structures and tanks	140,114	145,330
Machinery and equipment	105,889	114,436
Land	157,975	156,633
Others	4,774	7,564
Total property, plant and equipment	408,752	423,963
Intangible fixed assets	13,516	13,886
Investments and others:		
Investments in securities (Note 4)	26,592	25,249
Long-term loans	1,317	2,236
Deferred tax assets (Note 7)	22,342	23,630
Others	15,980	16,135
Allowance for doubtful accounts	(1,134)	(1,183)
Total investments and others	65,097	66,067
Total fixed assets	487,365	503,916
Total assets	¥882,299	¥916,690

	Millions of yen	
	2003	2002
Liabilities		
Current liabilities:		
Short-term debt (Note 5)	¥ 55,892	¥ 71,100
Current portion of long-term debt (Note 5)	12,614	31,415
Notes and accounts payable (Trade) (Note 12)	174,887	222,921
Accounts payable (Other) (Note 12)	192,941	162,900
Income taxes payable	12,228	979
Reserve for bonuses	1,612	1,730
Other current liabilities (Note 12)	40,303	50,856
Total current liabilities	490,477	541,901
Long-term liabilities:		
Long-term debt (Note 5)	52,444	48,016
Reserve for retirement benefits (Note 8)	79,562	79,752
Special reserve for repairs	9,645	8,905
Deferred tax liabilities (Note 7)	192	105
Other long-term liabilities	11,530	12,497
Total long-term liabilities	153,373	149,275
Total liabilities	643,850	691,176
Minority interests in consolidated subsidiaries	3,676	3,910
Commitments and contingent liabilities (Note 11)		
Shareholders' equity		
Capital stock	34,197	34,197
Capital reserve	22,089	22,086
Retained earnings	178,102	166,718
Net unrealized gains on investments in securities	2,325	652
Treasury stock	(1,940)	(2,049)
Total shareholders' equity	234,773	221,604
Total liabilities, minority interests and shareholders' equity	¥882,299	¥916,690

*All figures have been rounded to the nearest million.
See notes to consolidated financial statements.

Consolidated Statements of Income

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Years ended December 31, 2003 and 2002

	Millions of yen	
	2003	2002
Net sales	¥1,726,917	¥1,620,359
Cost of sales (Notes 8 and 12)	1,570,156	1,460,458
Gross profit	156,761	159,901
Selling, general and administrative expenses (Notes 8 and 10)	120,787	123,501
Income from operations	35,974	36,400
Non-operating income (expenses):		
Interest and dividend income	492	909
Interest expenses	(2,879)	(3,356)
Exchange gain	1,824	4,432
Equity in earnings of unconsolidated subsidiaries and affiliates	667	374
Others	2,110	1,342
Sub-total	2,214	3,701
Ordinary income	38,188	40,101
Special loss	1,251	7,515
Income before income taxes and minority interests	36,937	32,586
Income taxes (Current) (Note 7)	16,442	9,508
Income taxes (Deferred) (Note 7)	(616)	4,358
Minority interests in earnings of consolidated subsidiaries	111	55
Net income	¥ 21,000	¥ 18,665

	Yen	
	2003	2002
Per share data:		
Net income-basic	¥ 55.96	¥ 49.69
Net income-diluted	55.94	49.67
Cash dividends	25.00	25.00
Shareholders' equity	627.07	592.18

*All figures have been rounded to the nearest million.
See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Years ended December 31, 2003 and 2002

	Millions of yen	
	2003	2002
Capital stock:		
Balance at beginning of the year	¥ 34,197	¥ 34,197
Balance at end of the year	34,197	34,197
Capital reserve:		
Balance at beginning of the year	22,086	21,929
Profit on sale of treasury stock	3	3
Surplus from merged company	—	154
Balance at end of the year	22,089	22,086
Retained earnings:		
Balance at beginning of the year	166,718	157,088
Net income	21,000	18,665
Adjustments of retained earnings to reflect exclusion of consolidated subsidiaries	—	5
Increase resulting from merger of subsidiaries	—	10
Cash dividends	(9,354)	(8,995)
Bonuses to the members of the board and corporate auditors	(48)	(55)
Decrease resulting from inclusion of consolidated subsidiaries	(29)	—
Decrease resulting from inclusion of affiliates accounted for by the equity method	(38)	—
Decrease resulting from merger of affiliates accounted for by the equity method	(147)	—
Balance at end of the year	¥178,102	¥166,718

*All figures have been rounded to the nearest million.
See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Years ended December 31, 2003 and 2002

	Millions of yen	
	2003	2002
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 36,937	¥ 32,586
Depreciation	25,138	26,729
Loss on disposal of property, plant and equipment	3,879	5,072
Gain on sale of property, plant and equipment	(2,052)	(4,851)
Loss on write-down of investments in securities	511	977
Increase (decrease) in allowance for doubtful accounts	(724)	224
Increase (decrease) in reserve for retirement benefits	(209)	558
Interest and dividend income	(492)	(909)
Interest expenses	2,879	3,356
(Increase) decrease in notes and accounts receivables	19,005	(19,303)
(Increase) decrease in inventories	8,912	(25,431)
Increase (decrease) in notes and accounts payables	(27,330)	27,876
Others	(4,126)	7,689
Subtotal	62,328	54,573
Interest and dividend income received	641	1,039
Interest expense paid	(3,069)	(3,588)
Income taxes paid	(5,196)	(28,762)
Net cash provided by operating activities	54,704	23,262
Cash flows from investing activities:		
Payments for purchase of time deposits	(17)	(116)
Proceeds from maturity of time deposits	290	215
Payment for purchase of property, plant and equipment	(11,574)	(13,823)
Proceeds from sale of property, plant and equipment	3,898	6,766
Payment for purchase of investments in securities	(454)	(1,451)
Proceeds from sale of investments in securities	1,698	887
Proceeds from redemption of investments in bond	—	100
(Increase) decrease in short-term loans (net)	843	(333)
Payment of long-term loans	(282)	(281)
Proceeds from the collection of long-term loans	29	77
Others	(2,305)	(2,751)
Net cash used in investing activities	(7,874)	(10,710)
Cash flows from financing activities:		
Increase (decrease) in short-term debt (net)	20,652	(15,702)
Increase (decrease) in commercial paper (net)	(36,000)	23,000
Proceeds from long-term debt	2,100	1,086
Repayment of long-term debt	(16,488)	(18,789)
Proceeds from issuance of bonds	15,000	—
Payment for redemption of bonds	(15,000)	(10,000)
Payment for purchase of treasury stock	(4)	(1,063)
Cash dividends paid to minority interests	(100)	(105)
Cash dividends paid	(9,354)	(8,995)
Others	27	94
Net cash used in financing activities	(39,167)	(30,474)
Net (decrease) increase in cash and cash equivalents	7,663	(17,922)
Cash and cash equivalents at beginning of the year	7,165	25,081
Increase in cash and cash equivalents due to inclusion of consolidated subsidiaries	323	—
Increase in cash and cash equivalents due to merger	—	6
Increase in cash and cash equivalents due to merger of consolidated subsidiaries	—	22
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	—	(22)
Cash and cash equivalents at end of the year	¥ 15,151	¥ 7,165

Relation between cash and cash equivalents at year-end and cash in hand and at bank on the balance sheets

	Millions of yen	
Cash in hand and at bank on the balance sheets	¥ 15,382	¥ 7,651
Time deposits whose maturity periods exceed three months	(231)	(486)
Cash and cash equivalents	¥ 15,151	¥ 7,165

*All figures have been rounded to the nearest million.
See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared based on the accounts and records maintained by Showa Shell Sekiyu K.K. (the "Company") and its consolidated subsidiaries (hereinafter referred to in total as the "Companies") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Principles of Consolidation

Consolidated subsidiaries as at December 31, 2003 were as follows: (21 companies)

Showa Yokkaichi Sekiyu Co., Ltd.	Nakagawa Oil Co., Ltd.	Petro Star Kansai K.K.
East Ogishima Oil Terminal K.K.	K.K. Shinyo Sekiyu	Shoseki Shoji K.K.
Showa Shell Sempaku K.K.	Tokyo Shell Pack K.K.	Chuo Shell Sekiyu Hanbai K.K.
K.K. Rising Sun	Heiwa Kisen Kaisha, Ltd.	Siris Co., Ltd.
Shoseki Gas K.K.	Shoseki Kako K.K.	K.K. Sun Road
Shoseki Engineering & Construction Co., Ltd.	Nippon Grease Co., Ltd.	Petro Star Kanto Co., Ltd.
Shoseki Overseas Oil Development Co., Ltd.	Shoseki Home Gas K.K.	Stela Hyogo K.K.(*)

(*) *Stela Hyogo K.K. has been consolidated due to the increase of materiality of its impact on the consolidated financial statements of the Company.*

Major non-consolidated subsidiaries

Akusam Inc. K.K. Hayawa

(The non-consolidated companies listed above are small and do not have a material effect on the consolidated financial statements of the Company as a whole.)

Among the consolidated companies, Petro Star Kansai K.K. has changed its fiscal year-end to September 30 in 2003. Shoseki Home Gas K.K., Siris Co., Ltd., K.K. Sun Road, K.K. Shinyo Sekiyu, Nakagawa Oil Co., Ltd., and Petro Star Kanto Co., Ltd. have a fiscal year-end of September 30, and Tokyo Shell Pack K.K. has a fiscal year-end of October 31. The consolidated financial statements incorporated the accounts of the above companies with adjustments for significant transactions arisen after the date of their respective year-end.

(2) Investments in Non-consolidated Subsidiaries and Affiliates

Affiliates accounted for by the equity method as at December 31, 2003 were as follows: (14 companies)

Toa Oil Co., Ltd.	Osaka Shell Pack K.K.
Seibu Oil Co., Ltd.	Shell Tokuhatsu K.K.
Daiya Shoseki K.K.	Anzen Sekiyu K.K.
Shell Sekiyu Osaka Sales Office K.K.	Japan Oil Network Co., Ltd.
Central Oil Gas Co., Ltd.	Mieseki Shoji K.K.
Niigata Joint Oil Stockpiling Co., Ltd.	Joyo Shell Sekiyu Hanbai K.K.
Central Energy K.K.(*)	Nissho Koyu K.K.(**)

(*) *Kotohira Oil Co., Ltd. has been merged with Shikoku Central Oil K.K. and changed its name to Central Energy K.K.*

(**) *Nissho Koyu K.K. has been accounted for by the equity method from the current year due to the increase of materiality of its impact on the consolidated financial statements of the Company.*

Major affiliates not accounted for by the equity method are as follows:

Kyokuyo Co., Ltd. Onsite Power K.K.

(The above companies do not have a material effect on the consolidated financial statements of the Company as a whole.)

(3) Standards and Methods for Valuing Principal Assets

Investments in securities:

Held-to-maturity debt securities, that the Companies have intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, and are amortised over the period to maturity.

Available-for-sale securities, for which market value is available, are valued at the fair market value prevailing at the fiscal year-end. Net unrealized gains or losses on these securities are reported as a separate component of the shareholders' equity at a net-of-tax amount.

Available-for-sale securities, for which market value is not available, are valued at cost, cost being determined by the moving average method.

In cases where the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates, or available-for-sale securities has declined significantly and such impairment of the value is not deemed to be temporary, those securities are written down to the fair value and the resulting losses are included in net income for the period.

Derivatives:

Derivatives are valued at fair value.

Inventories:

Inventories are valued at cost, cost being determined mainly by using the weighted-average method.

(4) Depreciation Methods for Major Assets

Property, plant and equipment:

Depreciation is computed mainly using the straight-line method. The range of useful lives are those determined by Japanese tax law. 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:

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

(5) Reserves and Allowances

Allowance for doubtful accounts:

Allowance for doubtful accounts is made against potential losses on collection at an amount measured using a historical bad debt ratio, plus an amount individually measured based on the collectibility of accounts that are expected to be uncollectible due to bad financial conditions or insolvency.

Reserve for bonuses:

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

Reserve for retirement benefits:

Reserve for retirement benefits is provided, based on estimated present value of projected benefit obligations and fair value of pension plan assets at the fiscal year end in order to cover required retirement benefits for eligible employees.

Unrecognized actuarial gains and losses are recognized in expenses using the straight-line method over a fixed period (13 to 14 years), which is within the average estimated effective remaining working life of the employees, commencing from the following period.

Unrecognized prior service costs are recognized in expenses using the straight-line method over a fixed period (14 years), which is within the average estimated effective remaining working life of the employees.

(Additional information)

The Company changed its period of amortization of unrealized actuarial gains and losses from 14 years to 13 years, due to a decrease of the average effective remaining working life of the employees. As a result of this change, income from operations, ordinary income, and income before income taxes and minority interests decreased by ¥67 million compared with the results calculated based on the former method.

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 maintenance expenses of machinery and equipment in refineries, and the periodical inspection and maintenance expenses of tanks required by the Fire Defense Law.

(6) Translation of Foreign Currency Accounts

All monetary assets and liabilities of the Companies are translated into Japanese yen at the spot rate prevailing at the year-end. Resulting exchange gains or losses are charged or credited to income.

(7) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. The leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(8) Income Taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Income taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

(9) Consumption Tax

Consumption tax is imposed at the flat rate of 5 percent on all domestic consumption of goods and services (with certain exemptions).

The consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services is not included in the amounts of respective revenue and cost or expense items in the accompanying consolidated statements of income.

(10) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting, which must be held within three months of the end of each fiscal year. The appropriation charged to retained earnings as reflected in the accompanying consolidated statements of shareholders' equity represents that applicable to the immediately preceding fiscal year that was approved at the shareholders' meeting and disposed of during the year. Dividends are paid to shareholders on the shareholders' register as at the end of each financial year.

(11) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, demand deposits in banks, time deposits whose maturity periods do not exceed three months and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

3. INVENTORIES

Inventories as at December 31, 2003 and 2002 consisted of the following:

	Millions of yen	
	2003	2002
Finished products	¥ 44,875	¥ 51,408
Crude oil	35,987	43,687
Crude oil in transit	32,641	26,999
Work in process	15,325	15,150
Containers and supplies	4,219	4,600
	¥133,047	¥141,844

4. SECURITIES

a) Investments in securities as at December 31, 2003 and 2002 consisted of the following:

	Millions of yen	
	2003	2002
Available-for-sale securities	¥11,572	¥ 9,529
Investments in non-consolidated subsidiaries and affiliates	15,020	15,720
	¥26,592	¥25,249

b) Available-for-sale securities for which market value is available are as follows:

December 31, 2003	Millions of yen		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	¥1,923	¥5,744	¥3,821
Securities with unrealized loss:			
Shares	117	111	(6)

c) Amount of available-for-sale securities sold in fiscal 2003 and 2002 are as follows:

	Millions of yen	
	2003	2002
Amount sold during the year	¥659	¥395
Realized gain	57	8
Realized loss	33	67

d) Details of available-for-sale securities without market quotation are as follows:

	Millions of yen	
	2003	2002
Available-for-sale securities:		
Unlisted shares (excluding OTC shares)	¥5,702	¥6,106
Unlisted bonds	15	15

5. SHORT-TERM AND LONG-TERM DEBT

Short-term debt as at December 31, 2003 and 2002 is summarized as follows:

	Millions of yen	
	2003	2002
Short-term bank loans	¥36,892	¥16,100
Commercial paper	19,000	55,000
	¥55,892	¥71,100

Notes: The weighted average interest rates on short-term debt outstanding at the year-end are as follows:

	%	
	2003	2002
Short-term bank loans	0.27%	0.73%
Commercial paper	0.01	0.05

Long-term debt as at December 31, 2003 and 2002, consisted of the following:

December 31,	Millions of yen	
	2003	2002
Loans from banks, other financial institutions, etc. due from 2005 to 2013	¥35,058	¥ —
Loans from banks, other financial institutions, etc. due from 2004 to 2012	—	49,431
0.71 per cent bond due 2010	15,000	—
3.25 per cent bond due 2005	15,000	15,000
3.05 per cent bond due 2003	—	10,000
2.00 per cent bond due 2003	—	5,000
	65,058	79,431
Less: portion due within one year	12,614	31,415
	¥52,444	¥48,016

Notes: 1. All bonds shown above are unsecured.

2. The weighted average interest rate on long-term loans (excluding current portion) from banks outstanding as at December 31, 2003 and 2002 were 2.25 percent and 2.49 percent, respectively.

Annual maturities of bonds are as follows:

	Millions of yen
Within one year	¥ —
More than one year less than two years	15,000
More than two years less than three years	—
More than three years less than four years	—
More than four years less than five years	—
More than five years	15,000
	¥30,000

Annual maturities of long-term debt, except for bonds, are as follows:

	Millions of yen
Within one year	¥12,614
More than one year less than two years	9,279
More than two years less than three years	6,398
More than three years less than four years	3,083
More than four years less than five years	684
More than five years	3,000
	¥35,058

6. LEASE TRANSACTIONS

(1) Lessee

a) Finance leases

Information relating to finance leases, excluding those for which the ownership of the leased assets is considered to be transferred to the lessee, as of, and for the years ended December 31, 2003 and 2002 is as follows:

December 31, 2003	Millions of yen		
	Acquisition costs	Accumulated depreciation	Balance
Buildings, structures and tanks	¥ 469	¥ 234	¥ 235
Machinery and equipment	3,229	1,644	1,585
Other property, plant and equipment	1,041	729	312
Intangible fixed assets	90	78	12
	¥4,829	¥2,685	¥2,144

December 31, 2002	Millions of yen		
	Acquisition costs	Accumulated depreciation	Balance
Buildings, structures and tanks	¥ 469	¥ 177	¥ 292
Machinery and equipment	2,912	1,196	1,716
Other property, plant and equipment	1,089	672	417
Intangible fixed assets	82	63	19
	¥4,552	¥2,108	¥2,444

Lease payments and depreciation for the years ended December 31, 2003 and 2002 amounted to ¥791 million and ¥754 million, respectively.

Depreciation is calculated using the straight-line method over the lease term of the leased assets assuming no residual value.

The scheduled maturities of future lease rental payments of finance leases as of December 31, 2003 and 2002 were as follows:

	Millions of yen	
	2003	2002
Due within one year	¥1,922	¥2,117
Due over one year	3,652	3,920
	¥5,574	¥6,037

b) Operating leases

	Millions of yen	
	2003	2002
Due within one year	¥23	¥ 81
Due over one year	46	61
	¥69	¥142

(2) Lessor

Finance leases

The scheduled maturities of future lease rental payments of finance leases as of December 31, 2003 and 2002 were as follows:

	Millions of yen	
	2003	2002
Due within one year	¥1,205	¥1,359
Due over one year	2,225	2,234
	¥3,430	¥3,593

Note: Finance leases transaction as lessor relate to sublease transactions.

7. INCOME TAXES

(1) The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2003 and 2002, are as follows:

Balance sheet item	Millions of yen	
	2003	2002
<i>Deferred tax assets:</i>		
Non-deductible portion of reserve for retirement benefits	¥ 29,432	¥ 29,058
Loss on write-down of investments in securities	2,421	3,645
Loss on write-down of fixed assets	1,273	1,560
Non-deductible portion of allowance for doubtful receivables	356	279
Others	8,196	6,993
Sub-total	41,678	41,535
Valuation allowance	(2,788)	(2,814)
Total deferred tax assets	¥ 38,890	¥ 38,721
<i>Deferred tax liabilities:</i>		
Deferred gains on fixed assets	¥ (9,009)	¥ (9,263)
Unrealized gains on available-for-sale securities	(1,553)	(423)
Others	(476)	(585)
Total deferred tax liabilities	(11,038)	(10,271)
Deferred tax assets, net	¥ 27,852	¥ 28,450

(2) Reconciliation between the statutory tax rate and the effective tax rate as at December 31, 2003 and 2002, is as follows:

	December 31	
	2003	2002
Statutory tax rate	42.0%	42.0%
Permanent differences:		
Non-deductible expenses such as entertainment expenses	1.11%	1.22%
Non-taxable income such as dividend income	(1.69)%	(2.97)%
Decrease in deferred tax assets due to tax rate change	1.95%	—
Others	(0.52)%	2.30%
Effective tax rate	42.85%	42.55%

New legislation was enacted in March 2003, which changes the aggregate effective tax rate to 40.7 percent from 42.0 percent in 2002. The effect of this tax rate change is to decrease deferred tax assets net of deferred tax liability by ¥669 million and to increase income taxes (deferred) and net unrealized gains on investments in securities by ¥719 million and ¥49 million, respectively.

8. RESERVE FOR RETIREMENT BENEFITS

The Companies operate various defined benefit plans, such as a contributory pension plan, qualified pension plan and a severance payment plan.

(1) The reserve for retirement benefits as of December 31, 2003 and 2002 is analyzed as follows:

	Millions of yen	
	2003	2002
Projected benefit obligations	¥(102,877)	¥(99,458)
Plan assets	9,500	8,924
Unfunded benefit obligations	(93,377)	(90,534)
Unrecognized actuarial differences	14,554	11,758
Unrecognized prior service costs	(739)	(796)
	¥ (79,562)	¥(79,752)

Note: Certain subsidiaries calculate the projected benefit obligation by the simple method permitted under Japanese GAAP.

(2) The net periodic pension expense related to the retirement benefits for fiscal 2003 and 2002 is as follows:

	Millions of yen	
	2003	2002
Service cost	¥2,071	¥2,293
Interest cost	2,907	2,920
Amortisation of unrecognized actuarial differences	954	837
Amortisation of unrecognized prior service costs	(57)	(4)
	¥5,875	¥6,046

Notes: 1. Service cost excludes employees' contributions pension plan operated by the Company.

2. Service cost includes net periodic pension expense incurred by the subsidiaries, which apply the simple method.

(3) Assumptions used in calculation of the above information are as follows:

	As of December 31, 2003	As of December 31, 2002
Method of attributing the projected benefits of services	Benefit/year of service approach	Benefit/year of service approach
Discount rate	2.5%	3.0%
Expected rate of return	0%	0%

9. DERIVATIVE TRANSACTIONS

(1) Conditions of Derivative Financial Instruments

In the normal course of business, the Companies use various financial instruments, including derivative financial instruments, to manage their exposures to market risks. The Companies do not use derivative financial instruments for speculative purposes. These instruments include foreign exchange contracts, foreign currency options, interest rate swaps, crude oil futures and forward contracts, petroleum futures and forward contracts and crude oil options.

All such instruments involve risk, including the credit risk of non-performance by counter-parties. However, at December 31, 2003, in the management's opinion, there was no significant risk of loss in the event of non-performance of the counter-parties on these financial instruments, because all counter-parties were major financial institutions and trading companies with a high credit rating.

(2) Fair Value Information of Derivative Financial Instruments

December 31, 2003	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Currency-related transactions			
To buy	¥14,565	¥14,452	¥(113)
To sell	3,219	3,213	6
			¥(107)
Commodity-related transactions			
To buy	18,997	19,228	231
To sell	18,975	19,182	(207)
			¥ 24

December 31, 2002	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Currency-related transactions			
To buy	¥24,107	¥23,619	¥(487)
To sell	2,526	2,516	9
			¥(478)
Commodity-related transactions			
To buy	10,843	11,447	604
To sell	9,442	9,901	(459)
			¥ 146

10. SUPPLEMENTARY STATEMENTS OF INCOME

The major elements of selling, general and administrative expenses for the period ended December 31, 2003 and 2002 are as follows.

	Millions of yen	
	2003	2002
Transportation expenses	¥ 41,613	¥ 42,599
Salaries	28,859	29,229
Rent expenses	5,761	6,445
Depreciation	5,289	5,516
Research and development expenses	2,399	1,990
Others	36,866	37,722
	¥120,787	¥123,501

11. COMMITMENTS AND CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans borrowed by non-consolidated subsidiaries, affiliates and other companies in the amount of ¥7,864 million, and employees in the amount of ¥1,648 million, as at December 31, 2003.

12. RELATED PARTY TRANSACTION

(1) Related Companies

Material transactions of the Company with its related companies, representing more than 10 percent of the consolidated sales or the total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements, for the years ended December 31, 2003 and 2002 are disclosed by each item.

The Company further discloses material balances and transactions with related companies where such balances and transactions, including the related amount in the footnote, represent more than 1 percent of the consolidated total assets, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements. Related party transactions in the fiscal years 2003 and 2002 are as follows:

Name of related company	Paid-in capital (millions of yen)	Direct equity ownership % by the Company	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2003	Account	Fiscal 2003
Seibu Oil Co., Ltd.	8,000	24.5%	Purchase of petroleum materials	¥151,338	Accounts payable (trade)	¥33,325
Toa Oil Co., Ltd.	4,961	37.4%	Trust of refining petroleum	24,786	Other current liabilities	2,606
			Payment of gasoline tax	105,009	Account payable (other)	27,430
Shell International Trading and Shipping Co., Ltd.	140 (millions of pounds)	—	Purchase of crude oil	132,182	Accounts payable (trade)	11,040

Name of related company	Paid-in capital (millions of yen)	Direct equity ownership % by the Company	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2002	Account	Fiscal 2002
Seibu Oil Co., Ltd.	8,000	24.5%	Purchase of petroleum materials	¥123,551	Accounts payable (trade)	¥43,336
Toa Oil Co., Ltd.	4,961	37.4%	Trust of refining petroleum	26,903	Other current liabilities	2,547
			Payment of gasoline tax	105,625	Accounts payable (other)	33,899
Shell International Trading and Shipping Co., Ltd.	140 (millions of pounds)	—	Purchase of crude oil	155,497	Accounts payable (trade)	17,765

(2) Related Individuals

Material transactions and balances of the Company with related individuals, including shareholders and directors, representing more than ¥1 million for the year ended December 31, 2003 are as follows.

Name	Description of post	Ownership (%)	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2003	Account	Fiscal 2003
Haruyuki Niimi	Representative director/ Chairman of Zaidanhojin Showa Shell Sekiyu Kankyo Kenyu Josei Zaidan	0%	Donation	¥35	—	—
Yoshihiko Miyauchi	Director/ Representative director of Orix Baseball Club K.K.	0%	Payment of advertisement fee	2	—	—

13. SEGMENT INFORMATION

(1) Business Segment Information

For the consolidated fiscal year ended December 31, 2003	Millions of yen					Eliminations and corporate	Consolidated
	Petroleum	Real estate	Others	Total			
I. Net sales and operating profit							
Net sales							
(1) Sales to outside customers	¥1,710,639	¥ 4,291	¥11,987	¥1,726,917	¥ —		¥1,726,917
(2) Inter-segment sales and transfers	88	115	6,879	7,082	(7,082)		—
Total sales	1,710,727	4,406	18,866	1,733,999	(7,082)		1,726,917
Operating expenses	1,678,189	1,880	18,021	1,698,090	(7,147)		1,690,943
Income from operations	¥ 32,538	¥ 2,526	¥ 845	¥ 35,909	¥ 66		¥ 35,974
II. Assets, depreciation and capital expenditures							
Assets	¥ 828,546	¥48,695	¥ 8,696	¥ 885,937	¥(3,638)		¥ 882,299
Depreciation	24,072	1,031	35	25,138	—		25,138
Capital expenditures	15,247	129	27	15,403	—		15,403

For the consolidated fiscal year ended December 31, 2002	Millions of yen					Eliminations and corporate	Consolidated
	Petroleum	Real estate	Others	Total			
I. Net sales and operating profit							
Net sales							
(1) Sales to outside customers	¥1,603,753	¥ 4,502	¥12,104	¥1,620,359	¥ —		¥1,620,359
(2) Inter-segment sales and transfers	104	123	6,815	7,042	(7,042)		—
Total sales	1,603,857	4,625	18,919	1,627,401	(7,042)		1,620,359
Operating expenses	1,570,810	1,900	18,303	1,591,013	(7,054)		1,583,959
Income from operations	¥ 33,047	¥ 2,725	¥ 616	¥ 36,388	¥ 12		¥ 36,400
II. Assets, depreciation and capital expenditures							
Assets	¥ 862,824	¥49,338	¥ 9,067	¥ 921,229	¥(4,539)		¥ 916,690
Depreciation	25,615	1,071	43	26,729	—		26,729
Capital expenditures	16,723	79	67	16,869	—		16,869

Notes: 1. Businesses are classified mainly on an internal management basis.

2. 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, sale of automobile products, leasing business and car rental business

3. Non-allocatable operating expenses are not included in operating expenses in "Elimination and corporate" for the fiscal year.

4. Corporate assets are fully allocated to each segment and not included in assets in "Elimination and corporate."

5. Long-term prepaid expenses and their depreciation are included in depreciation and capital expenditures.

6. As mentioned in Note 2 (5), the Company has applied 13 years for amortization of unrealized actuarial gains and losses from this year. As a result of this change, operating expenses increased by ¥67 million and income from operations decreased by the same amount. The effect of this change for Real estate division and Others is immaterial.

(2) Geographic Segment Information

For the consolidated fiscal years ended December 31, 2003 and 2002, geographic segment information has been omitted as 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 December 31, 2003	Millions of yen		
	Asia	Others	Total
Overseas sales	¥126,513	¥77,588	¥ 204,101
Consolidated net sales			1,726,917
Overseas sales as a percentage of total consolidated net sales	7.3%	4.5%	11.8%

For the consolidated fiscal year ended December 31, 2002	Millions of yen		
	Asia	Others	Total
Overseas sales	¥144,649	¥54,731	¥ 199,380
Consolidated net sales			1,620,359
Overseas sales as a percentage of total consolidated net sales	8.9%	3.4%	12.3%

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 U.A.E., Bermuda, Switzerland, United Kingdom, U.S.A.

3. Overseas sales are net sales of the Company and its consolidated subsidiaries in countries and regions outside Japan.

Report of Independent Accountants

To the Board of Directors
SHOWA SHELL SEKIYU K.K.

We have audited the accompanying consolidated balance sheets of SHOWA SHELL SEKIYU K.K. and its consolidated subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHOWA SHELL SEKIYU K.K. and its consolidated subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

ChuoAoyama Audit Corporation
ChuoAoyama Audit Corporation

Tokyo, Japan

March 30, 2004

Code of Conduct

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 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 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 Code of Conduct.

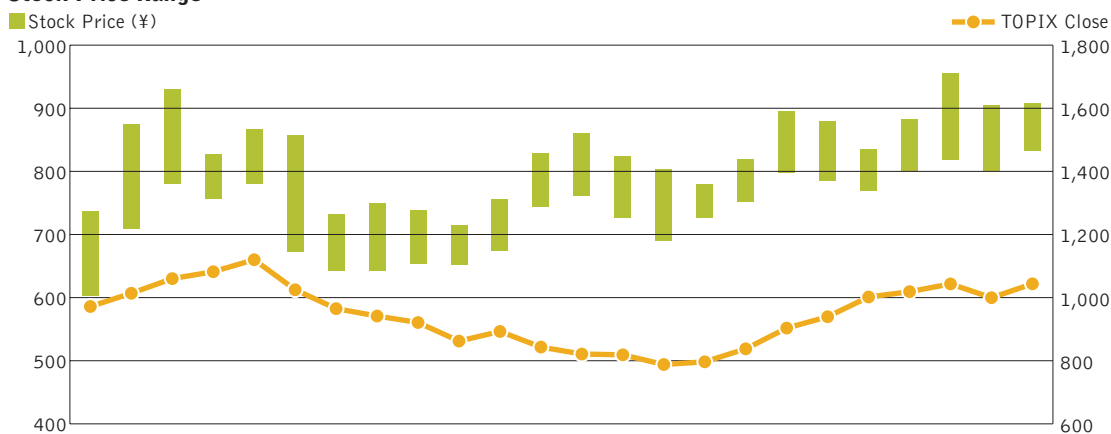
Investor Information

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:1,064
Total Number of Service Stations:.....5,017
Number of Shareholders:11,949
Securities Listings:Tokyo, Osaka, Nagoya, Fukuoka and Sapporo
Ticker Code:5002
Transfer Agent:Mizuho Trust & Banking Co., Ltd.
 1-2-1, Yaesu, Chuo-ku, Tokyo 103-0028, Japan
Independent Auditors:ChuoAoyama Audit Corporation
General Shareholders' Meeting:March

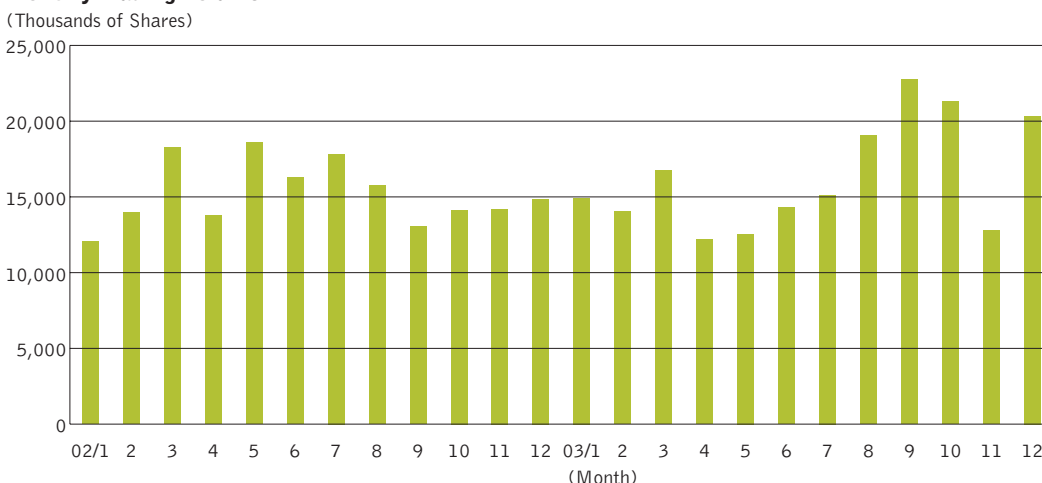
Major Stockholders

	Shares owned (Thousand shares)	Percentage of total common shares outstanding
The Shell Petroleum Co., Ltd.....	162,934.2	43.24%
Japan Trustee Service Bank, Limited.....	21,964.8	5.83
Shell Japan Holdings B.V.	18,700.0	4.96
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,704.5	4.43
Mizuho Corporate Bank, Ltd.	14,196.6	3.77
The Chase Manhattan Bank, N.A. London.....	10,702.7	2.84
Trust & Custody Services Bank, Ltd.....	10,606.6	2.81
The Anglo-Saxon Petroleum Co., Ltd.	6,784.0	1.80
Nomura Securities Co., Ltd.....	5,628.6	1.49
Schroder Investment Management Limited	4,287.8	1.14
Total	272,509.9	72.31

Stock Price Range



Monthly Trading Volume



Showa Shell Sekiyu K.K.

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

