

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.



Contents

1	Shifting to Dynamic Growth
2	Strong Financial Foundation Enables a Bolder Management Style
4	To Our Shareholders
6	Growth Strategies to Position Showa Shell as a Leading Company
11	Sustainable Growth Together with Society/Corporate Social Responsibility in Action
14	Board of Directors and Corporate Auditors
15	Network, Major Subsidiaries and Affiliates
16	Ten-Year Summary of Selected Financial Data
18	Financial Review
20	Consolidated Balance Sheets
21	Consolidated Statements of Income and Shareholders' Equity
22	Consolidated Statements of Cash Flows
23	Notes to the Consolidated Financial Statements
31	Report of Independent Accountants
32	Code of Conduct
33	Investor Information

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



Liquidation of the past

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

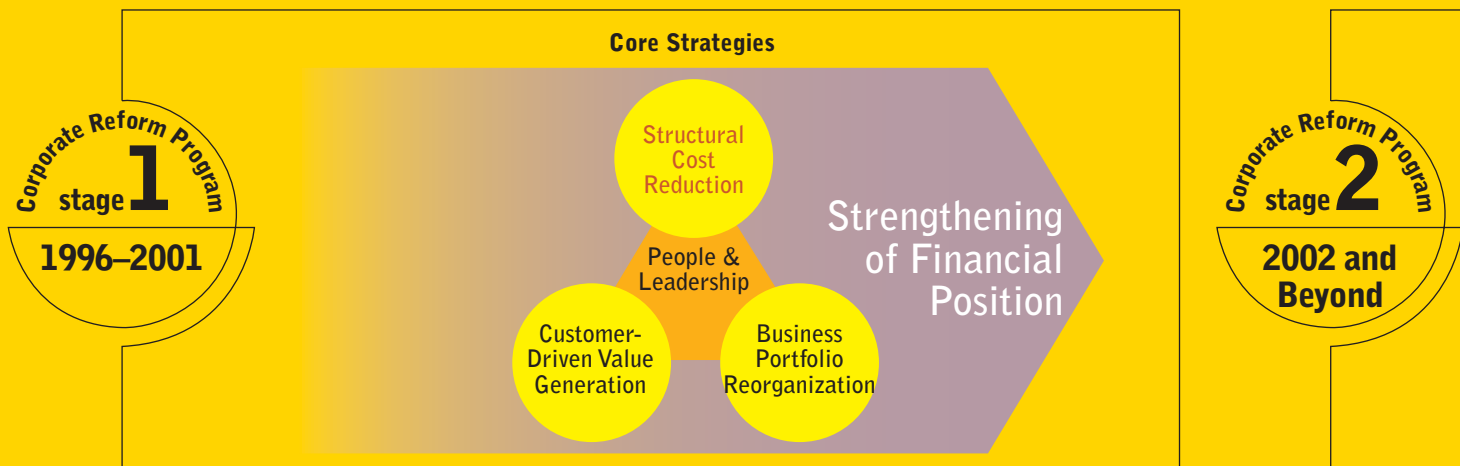
While enabling all employees to make full use of their skills and evaluating and rewarding their performance accordingly, we are setting forth new challenges to encourage personal growth.

■ 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

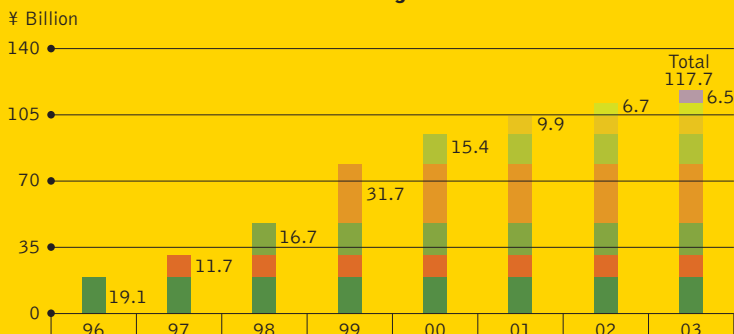
>>> Aggressively Increasing Strategic



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

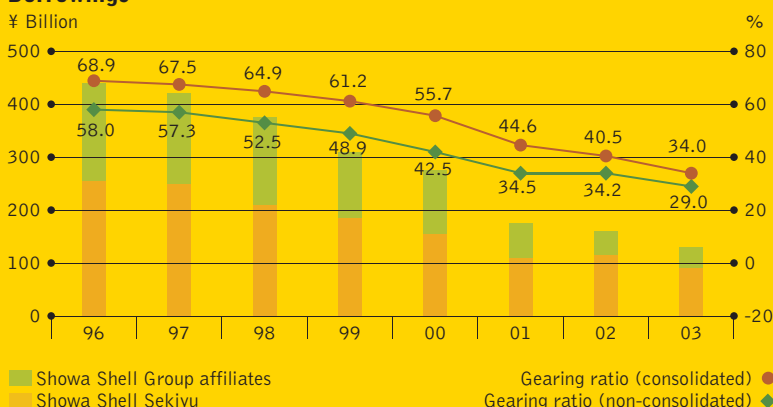
Structural Cost Reductions to Strengthen Financial Position



1995-2003 (non-consolidated)

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

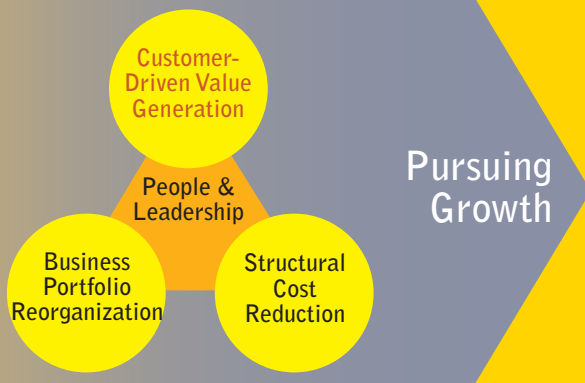
Borrowings



Enables Management Style

Growth Investment

Core Strategies

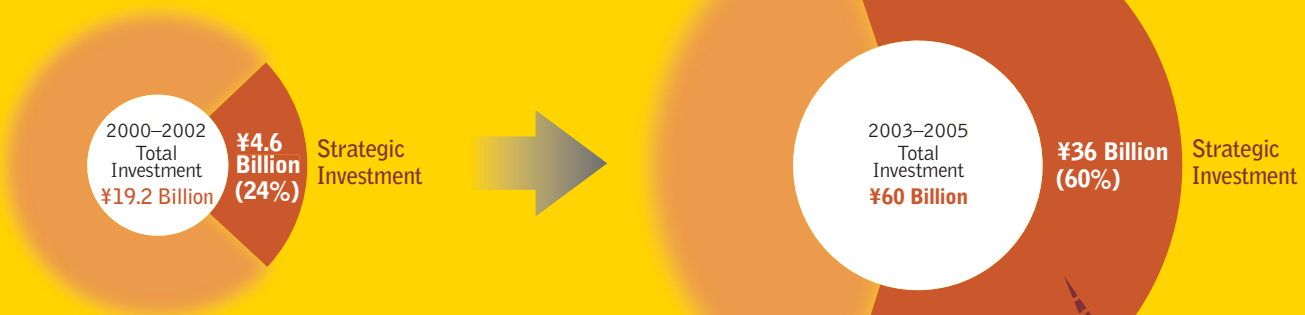


- Expand the Core Businesses that Currently Provide the Main Sources of Revenue
- Create the Groundwork for New Businesses for the Future
- Achieve Further Structural Cost Reduction to Enhance Competitiveness

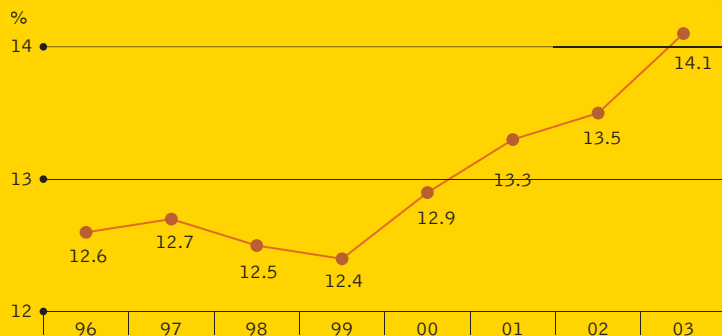
In fiscal 2002, Showa Shell moved into the second stage of its corporate reform program, and is now focused on executing some ¥36 billion in strategic investments called for in its Medium-Term Management Plan for 2003 to 2005. These investments are designed not only to accelerate corporate growth, but 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