



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

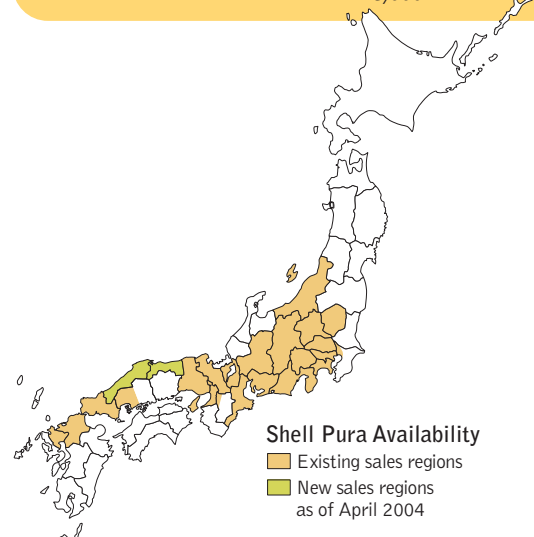
Two years of study and R&D by the Showa Shell Group culminated in the development of a new engine cleaner that offers outstanding cleaning performance. By removing carbon accumulation on intake valves, Shell Pura regains lost engine performance and delivers improved acceleration performance.



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.

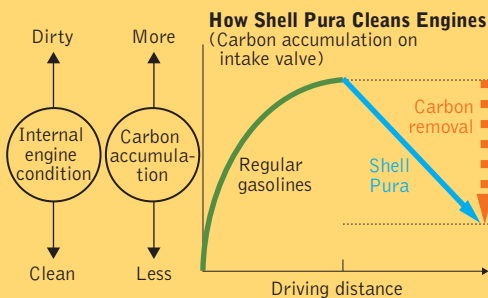
Credit Card Strategy: Upgrades

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.



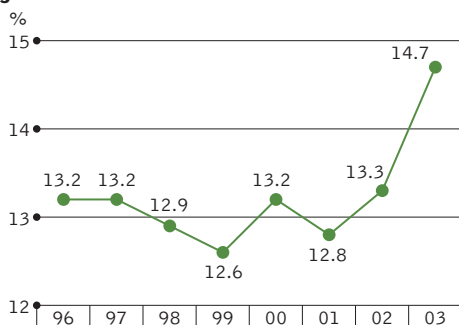
Providing Information in a Timely, Smooth Manner

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

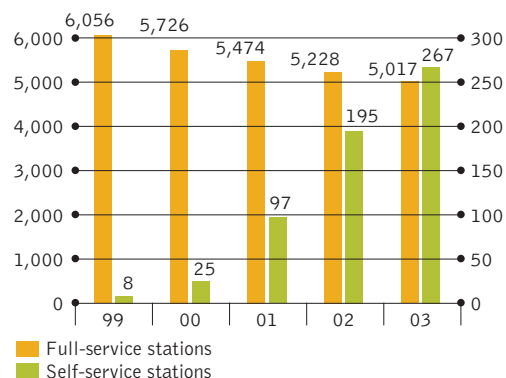
"Selection and Concentration"—The Key to Discriminating Service Station Investment

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



Fuel cell bus parked at Ariake Hydrogen Station



Field test using GTL fuel



Airport installation of solar power generation system

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.

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.

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.



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.

10

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

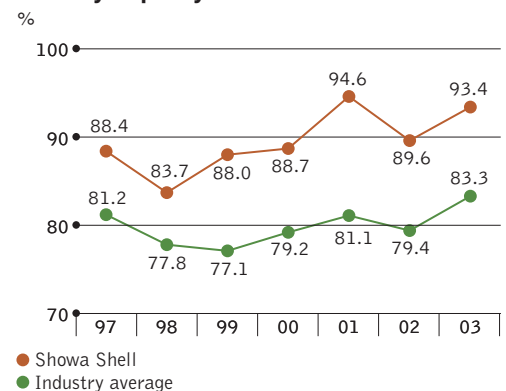
Showa Shell is involved in a broad-based strategic partnership with Japan Energy Corporation, with whom it has partnered to create JS Initiative, Ltd.

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

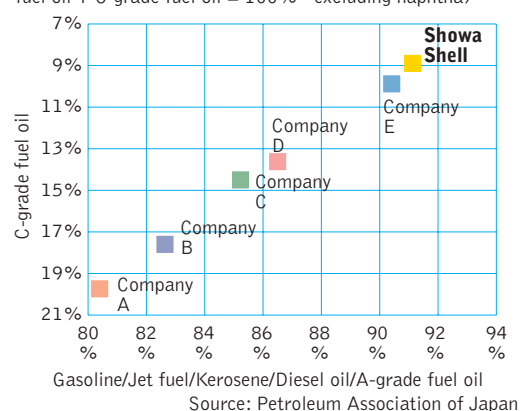
Refinery Capacity Utilization Rate



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

