

Ten-Year Summary of Selected Financial Data

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

	2004	2003	2002
Consolidated			
Net sales	¥1,839,445	¥1,726,917	¥1,620,359
Cost of sales	1,665,979	1,570,156	1,460,458
Gross profit	173,466	156,761	159,901
Selling, general and administrative expenses	113,281	120,787	123,501
Income from operations	60,185	35,974	36,400
Ordinary income	61,927	38,188	40,101
Net income	2,362	21,000	18,665
Total assets	905,823	882,299	916,690
Total shareholders' equity	226,956	234,773	221,604
Net income per share (yen)	¥6.14	¥ 55.96	¥ 49.69
Shareholders' equity per share (yen)	605.25	627.07	592.18
Return on sales (operating profit basis) (%)	3.3	2.1	2.2
Return on sales (net income basis) (%)	0.1	1.2	1.2
Return on assets (%)	0.3	2.3	2.0
Return on equity (%)	1.0	9.2	8.6
Equity ratio (%)	25.1	26.6	24.2
Number of shares outstanding at end of term (thousand shares)*1, 2	374,868	374,303	374,125

*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.

Management's Analysis of Financial Position and Operating Results

Japan's Economy and the Operating Environment

During 2004, Japan's economy overall experienced a gradual recovery. Although the improvement in corporate earnings and expansion of private capital investment continued, growth in exports and consumer spending weakened in the second half of the year. Over the course of the term, crude oil prices rose from US\$28 per barrel for Dubai crude oil at the start of the year, to US\$41 per barrel in August. In addition to the strong expansion of worldwide demand for oil, prices were driven up by a substantial influx of speculative funds into the crude oil futures market, against the backdrop of uncertainty factors such as the uneasy political situation in major oil-producing countries. Crude oil prices declined gradually thereafter, as OPEC member countries lifted their production ceilings several times, but remained in a high range around US\$34 per barrel at the end of 2004.

In the foreign exchange market, the yen began the year at ¥107 to the U.S. dollar, and fluctuated within a trading range of ¥103 to ¥114 to the U.S. dollar. From mid-year, the market price stabilized at a level centered on ¥110 to the U.S. dollar, but beginning in October, the yen gathered strength, boosted by concerns of a down-

turn in the U.S. economy and other factors, and ended the year at a rate of ¥104 to the U.S. dollar.

Sales of Petroleum Products

Turning to the Company's domestic sales, total sales volume declined slightly as the result of weaker demand for kerosene and fuel oil for electric power generation. This reflected several factors, including the warm winter and the restart of nuclear power generation. Nevertheless, sales volume for highly profitable gasoline and diesel oil increased, and the Showa Shell Group strengthened both its sales capabilities and profitability in the petroleum business again in fiscal 2004. Although the principal concern was how to set sales prices to take proper account of sharply rising crude oil prices, during the second half prices for gasoline and diesel oil rose at the pump, and prices for some petroleum products for industrial uses also climbed once we entered the fourth quarter, reflecting the rise in crude oil prices.

Operating Results

Consolidated operating results for the fiscal year ended in December 2004 for the Showa Shell Group are discussed below.

Millions of yen

	2001	2000	1999	1998	1997	1996	1995
	¥1,664,954	¥1,639,475	¥1,365,478	¥1,324,752	¥1,588,067	¥1,600,067	¥1,441,176
	1,513,626	1,477,361	1,218,732	1,171,788	1,408,789	1,404,723	1,225,954
	151,328	162,113	146,746	152,964	179,278	195,344	215,222
	123,274	124,442	133,692	144,446	164,434	174,646	186,383
	28,053	37,670	13,054	8,518	14,844	20,698	28,839
	29,052	38,913	12,191	7,223	12,901	15,225	21,993
	2,610	12,499	1,828	1,999	6,387	6,054	13,802
	909,902	1,002,146	974,916	992,282	1,049,931	1,071,464	1,001,676
	212,168	216,349	197,562	199,711	201,479	198,536	195,926
	¥ 6.95	¥ 33.19	¥ 4.85	¥ 5.31	¥ 16.95	¥ 16.06	¥ 39.94
	565.36	574.77	524.25	529.95	534.64	526.84	519.93
	1.7	2.3	1.0	0.6	0.9	1.3	2.0
	0.2	0.8	0.1	0.2	0.4	0.4	1.0
	0.3	1.2	0.2	0.2	0.6	0.6	1.5
	1.2	6.0	0.9	1.0	3.2	3.1	7.3
	23.3	21.6	20.3	20.1	19.2	18.5	19.6
	375,281	376,409	376,850	376,850	376,850	376,850	376,850

Consolidated net sales increased 6.5 percent year on year to ¥1,839.4 billion. This was achieved by reflecting rising crude oil prices in sales prices, although the total quantity of petroleum products sold decreased, as discussed above.

Furthermore, as a result of its continuous cost reductions, the Company reduced selling, general and administrative expenses significantly to ¥113.3 billion, or 6.1 percent of net sales, compared to 7.0 percent of net sales in the previous fiscal year. Consequently, the Company achieved a substantial 67.3 percent increase in income from operations, to ¥60.2 billion. Ordinary income was a record-high ¥61.9 billion, a year-on-year increase of 62.2 percent. Moreover, on a current cost of supply (CCS) basis, which excludes the effect of changes in inventory valuations and therefore is not affected by changes in crude oil prices, ordinary income increased 11.3 percent to ¥40.4 billion.

Net income was ¥2.3 billion, a low level compared with ordinary income. This is because the Company accelerated its application of asset impairment accounting, which all companies in Japan will be obligated to apply in two years, and charged an impairment loss of ¥33.7 billion to earnings as a special loss. Added to other charges, such as

a loss on disposal of fixed assets, the special loss totaled ¥37.1 billion, which substantially reduced net income.

Turning to income from operations by segment, income from operations for petroleum increased 75.2 percent year on year to ¥57.0 billion, which represented 94.7 percent of total income from operations. In real estate, income from operations was ¥2.5 billion. In other businesses, income from operations declined 20.1 percent. The effect overall was not material because this business accounted for only 1.1 percent of total income from operations.

Assets, Liabilities and Shareholders' Equity

Total assets increased 2.7 percent compared with the end of the prior period, or ¥23.5 billion, to ¥905.8 billion. Notes and accounts receivable and inventories increased by ¥13.6 billion and ¥43.4 billion, respectively, along with the sharp rise in crude oil prices. On the other hand, total property, plant and equipment decreased by ¥48.5 billion, as the result of application of asset impairment accounting.

On the contrary, notes and accounts payable increased by ¥21.6 billion because of the sharp rise in crude oil prices. Interest-bearing debt decreased ¥6.2 billion year on year to ¥114.8 billion. The ratio of interest-bearing

debt to total assets was 12.7 percent, down 1.0 percentage point from the end of the previous fiscal year, as the Company continued its efforts to further strengthen its financial base.

Total shareholders' equity decreased to ¥227.0 billion from ¥234.8 billion at the end of the prior fiscal year. This reflected the payment of dividends in excess of net income, but the Company continued to maintain a high degree of financial safety with a ratio of shareholders' equity to total assets of 25.1 percent.

Cash Flows

Net cash provided by operating activities decreased from ¥54.7 billion in the prior period to ¥29.6 billion. The main reason was the increase in working capital, including trade notes and accounts receivable and inventories, caused by the rapid rise in crude oil prices. Net cash used in investing activities increased from ¥7.9 billion in the prior fiscal year to ¥19.2 billion. This mainly reflected an increase in payment for purchase of investments in securities because of the Company's strategic investments and acquisitions. Net cash used in financing activities decreased from ¥39.2 billion in the prior fiscal year to ¥17.7 billion. This decline in net cash used illustrates the fact that the Company completed the first stage of its reduction of interest-bearing debt.

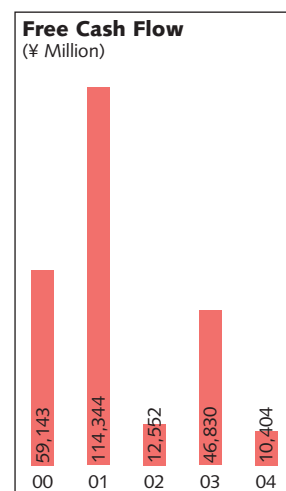
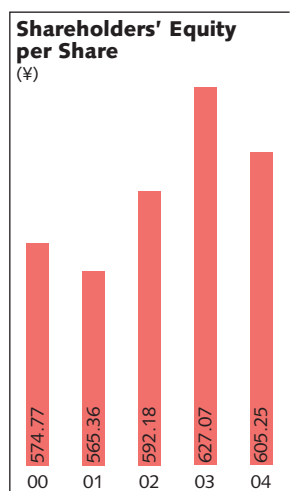
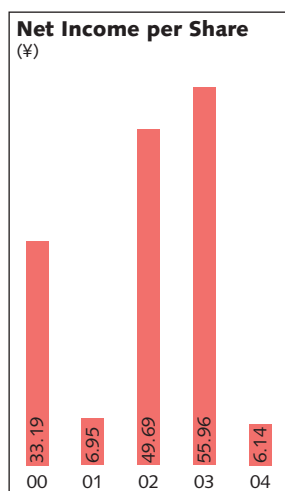
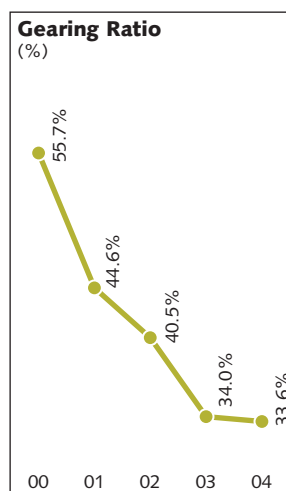
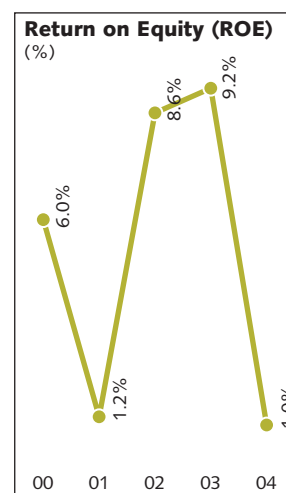
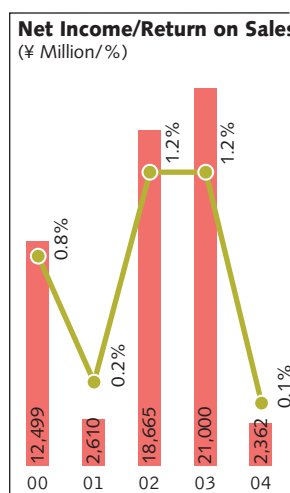
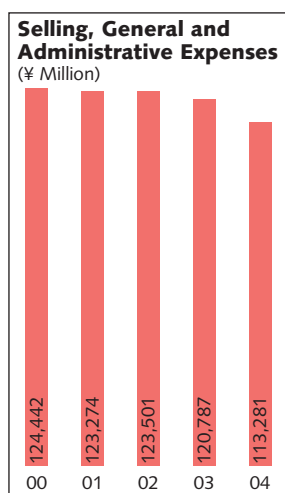
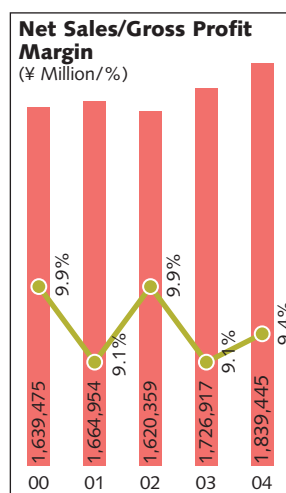
As a result, cash and cash equivalents decreased by ¥7.3 billion.

Dividend Policy

Showa Shell's basic policy concerning the distribution of earnings is to achieve a stable and attractive dividend for shareholders while taking into consideration factors such as the Company's operations and financial base and trends in the financial markets. For the fiscal year ended in December 2004, the Company increased the annual dividend by ¥5.00 from the prior fiscal year, and paid a total annual cash dividend of ¥30.00 per share, even though net income for the period was low at ¥2.3 billion due to the early adoption of accounting for impairment of assets, and other factors. The Company took this decision because it achieved a record-high level of ordinary income, and because the Company has a sufficient level of retained earnings.

Outlook for 2005 (Initial Forecast Adjusted Upward on May 13, 2005)

For the fiscal year ending in December 2005, the Group's business plan now calls for net sales of ¥2,190.0 billion, up 19.0 percent year on year, ordinary income of ¥60.0 billion, down 3.0 percent year on year, and net income of ¥35.0 billion, an increase of approximately 14.8 times over the previous fiscal year's total. On a CCS basis, which excludes the effect of changes in inventory valuations, the Group projects ordinary income of ¥45.0 billion, an increase of 11.3 percent year on year. This projection is based on a forecast of US\$43.9 per barrel for the average price of crude oil, and an exchange rate of ¥106.1 to the U.S. dollar. For fiscal 2005, the Company plans to issue a



special cash dividend of ¥5 marking the 20th anniversary of the merger of Showa Oil and Shell Sekiyu. Combined with the forecasted regular cash dividend of ¥30 per share, the total annual cash dividend is projected at ¥35 per share, for an increase of ¥5 year on year.

Operational Risks

Although the Showa Shell Group has created a system to check and manage business risk, and endeavors to mitigate its risks, the following matters are considered important issues related to the businesses of the Showa Shell Group and its financial and accounting position that might have a material effect on the decisions of investors.

The risks described below are the risks evaluated to be material by the Showa Shell Group at the end of the consolidated fiscal year under review. This list is not meant to be, and should be not construed as, a comprehensive list of every risk affecting the Group. Furthermore, the matters discussed here concerning future circumstances are those matters evaluated by the Showa Shell Group at the end of the consolidated fiscal year under review.

1. The effects of energy demand and market conditions for petroleum products

Domestic demand for petroleum products is affected by, and changes with, factors such as the economic situation in Japan and domestic energy supply and demand. Moreover, Japan's domestic petroleum products market will be affected by factors such as the demand trend, price competition with other companies in the industry, and overseas prices for petroleum products. These fluctuating factors also will exert an influence on the quantities and prices of petroleum products the Showa Shell Group sells, and cause changes to the Group's earnings.

2. Changes in crude oil prices and exchange rate market prices

a. Effect on sales margin

Because the cost of sales on a yen basis of petroleum products the Showa Shell Group sells domestically is affected by changes in crude oil prices and the foreign exchange market, the Company's basic policy is to reflect these influences in its sales prices. When it is difficult to reflect the changes in cost of sales, which result from factors such as the domestic market environment, in the Company's sales prices, however, these changes will cause fluctuations in the Group's earnings.

In addition, there is a possibility the amount of working capital the Group requires will increase because of a rise in crude oil prices or a rapid depreciation of the yen.

b. Effect of inventory valuation

The Showa Shell Group uses the weighted-average method to value crude oil inventory. When crude oil prices have declined, the Group's cost of sales will be increased by the effect of inventory that is relatively expensive at the beginning of the period, which will be a negative factor for earnings. When crude oil prices have risen, on the other hand, the Group's cost of sales will be reduced by the effect of inventory that is relatively inexpensive at the beginning of the period, which will be a positive factor for earnings. As this illustrates, there is a possibility that changes in crude oil prices will affect the Group's operating results.

3. Risk concerning sources of crude oil procurement

The Showa Shell Group procures all of its crude oil from countries in the Middle East. There is a possibility that the financial position and operating results of the Showa Shell Group will be seriously affected in the event that obstacles

arise to its procurement of crude oil, for reasons such as a change in the political climate in oil-producing countries, and an appropriate alternative supply source cannot be ensured.

4. Environmental regulations and assessment of taxes on the active conduct of business

There are plans to strengthen regulations on the sulfur content of both gasoline and gas oil and to limit sulfur content, respectively, to 10 ppm or less (sulfur-free). The Showa Shell Group is making investments to respond to this change. There is a possibility the Group's additional capital investment or expense burden will increase if quantity restrictions on parties that emit carbon dioxide, or on consumption of fossil fuels or other new environmental regulations, are introduced in Japan in the future, which would affect the Group's financial position and operating results.

5. Termination or restriction of active conduct of business as the result of a disaster, accident, etc.

The Showa Shell Group has enacted a basic policy concerning health, safety, security and environmental conservation (environment), based on HSE management rules, and strives to ensure safe operations and minimize disaster risk through the use of appropriate insurance, including property and casualty insurance. There is a possibility, however, that each office and facility of the Showa Shell Group, including its refineries, could face obstacles to its operations if struck by a natural disaster such as a large typhoon or earthquake, which would affect the Group's financial position and operating results. There is also a possibility of being similarly affected by the termination or restriction of active conduct of its business as the result of an occurrence such as a serious industrial injury or equipment accident.

6. Risks related to intellectual property rights

In addition to competition for technological development, as intellectual property rights strategies become more important, there is a risk disputes will occur over issues such as the violation of intellectual property rights if the Group's steps to strengthen its intellectual property rights management system or defensive measures are inadequate.

7. Control of personal data

The Showa Shell Group obtains and uses personal data, including information on its customers, in relation to its businesses such as oil sales, and has created in-house management systems for the administration of this data. The Group strives to protect such information with great care, but there is a possibility the Showa Shell Group brand image will be damaged, and the business performance of the Group negatively affected, if for some reason such data are disclosed outside the group and misused.

8. Risk concerning retirement benefits

The Showa Shell Group's estimated pension benefit obligations and costs are calculated according to mathematical valuation principles, and basic rates such as the discount rate and the expected rate of return on pension plan assets have been set as calculation assumptions. In the event the actual numerical values concerning the basic rate differ from these assumptions, or in the event the assumptions are revised, these changes will affect the amount of the pension benefit obligation and the costs recognized in the future because the effects will be cumulative and will be recognized regularly in future periods.