

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