

Showa Shell Sekiyu K.K.

2004 Annual Report



New
Foundation



Profile

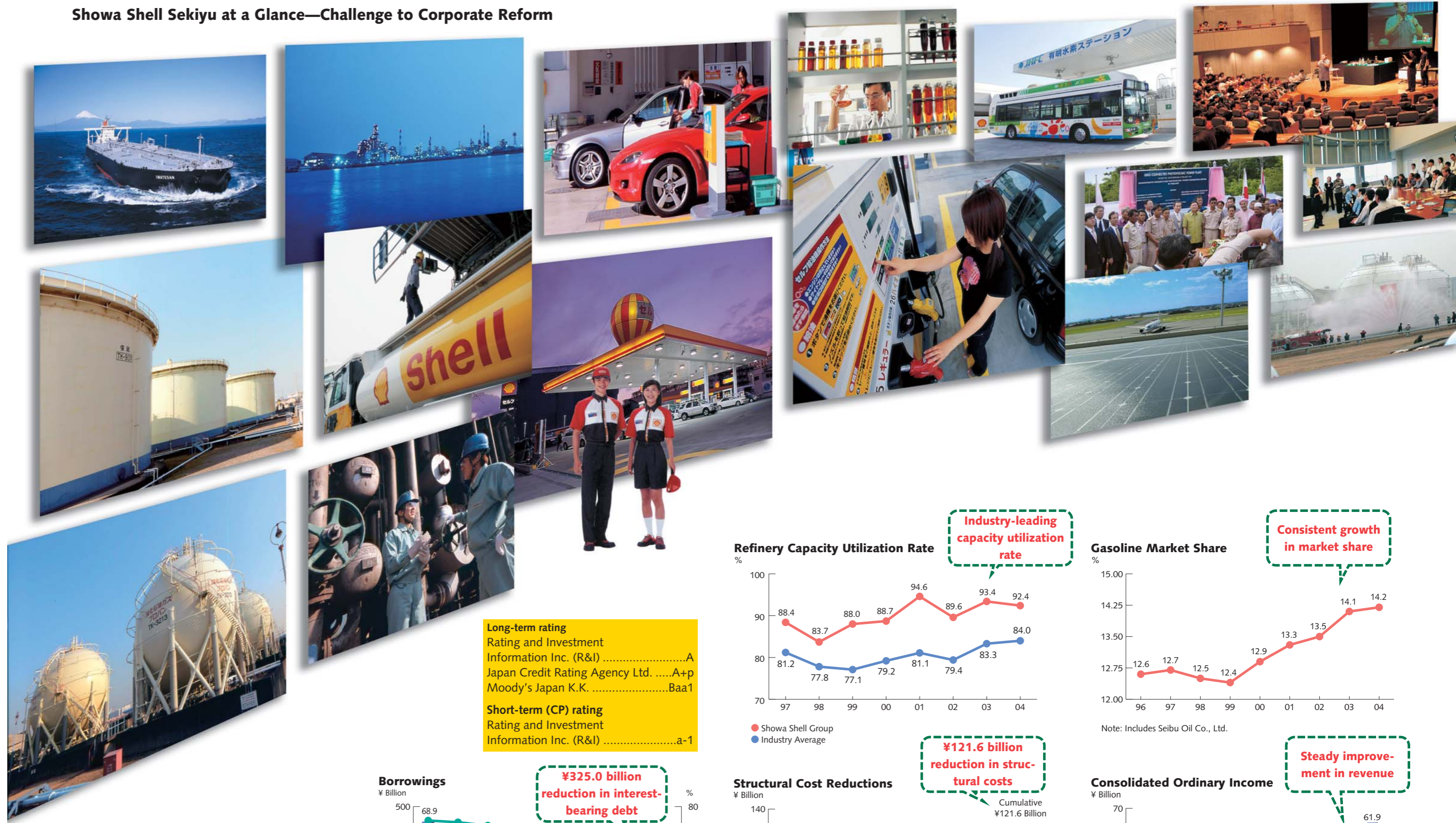
Showa Shell Sekiyu K.K. was formed in 1985 by an equal merger of two partners: Showa Oil Co., Ltd., established in 1931, and Shell Sekiyu K.K., which had more than a century of tradition in Japan. In the ensuing years, Showa Shell has continued to foster a hybrid corporate culture that incorporates the best of both Japanese and Western management practices. It has the attention to detail of a Japanese enterprise—sensitive to the needs of customers and rooted in the local community. It also has Western-style speed—embodying innovation and change to be responsive to stakeholders and the business environment. With these two features combined, the Company has achieved a corporate revolution that puts it well ahead of the competition.

With its background as a member of the Royal Dutch/Shell Group, the Company is now turning a new page in its history. In 2004, Saudi Aramco, the national oil company of Saudi Arabia, which is the world's largest oil producing nation, became a new partner to Showa Shell. The subsequent infusion of new values will enable Showa Shell to build a multilayered corporate culture and further enhance its corporate value.

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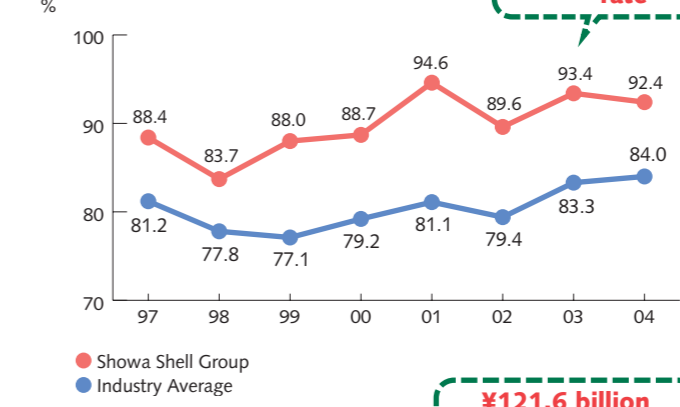
Showa Shell Sekiyu at a Glance—Challenge to Corporate Reform



Long-term rating
 Rating and Investment Information Inc. (R&I)A
 Japan Credit Rating Agency Ltd.A+p
 Moody's Japan K.K.Baa1

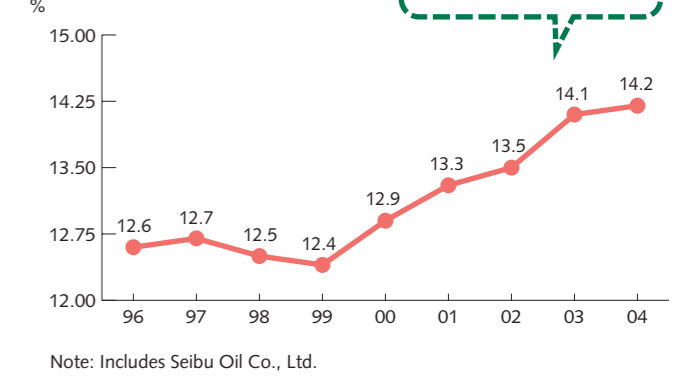
Short-term (CP) rating
 Rating and Investment Information Inc. (R&I)a-1

Refinery Capacity Utilization Rate



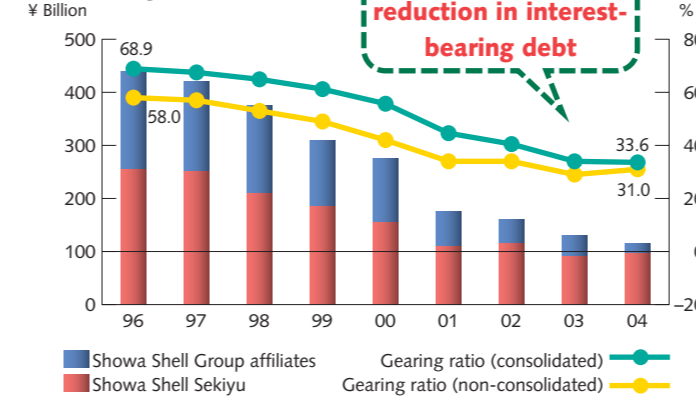
Industry-leading capacity utilization rate

Gasoline Market Share



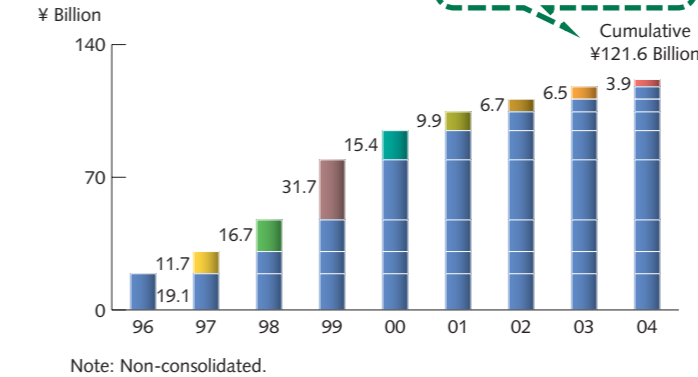
Consistent growth in market share

Borrowings



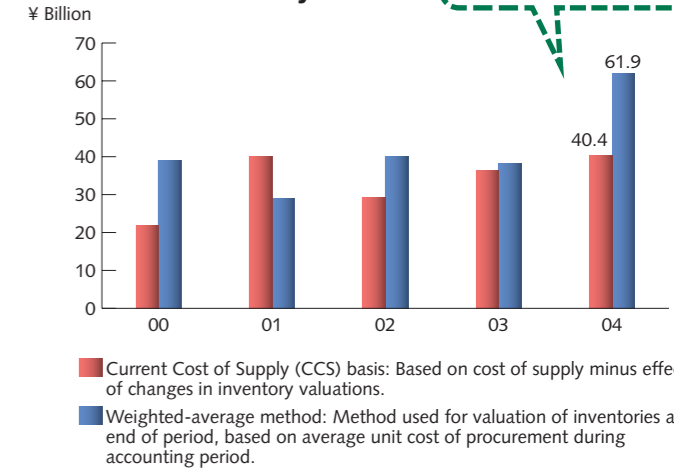
¥325.0 billion reduction in interest-bearing debt

Structural Cost Reductions



¥121.6 billion reduction in structural costs

Consolidated Ordinary Income



Steady improvement in revenue

Consolidated Financial Highlights

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

	Millions of yen	
	2004	2003
For the year:		
Net sales	¥1,839,445	¥1,726,917
Income from operations	60,185	35,974
Ordinary income	61,927	38,188
Net income	2,362	21,000
At year end:		
Total shareholders' equity	226,956	234,773
Total assets	905,823	882,299
Interest-bearing debt	114,782	120,950
Yen		
Per share data:		
Net income per share (yen)	¥ 6.14	¥ 55.96
Cash dividends (yen)	30.00	25.00
Shareholders' equity per share (yen)	605.25	627.07
Ratios:		
Return on equity (ROE) (%)	1.0	9.2
Return on assets (ROA) (%)	0.3	2.3
Gearing ratio* (%)	33.6	34.0

Note: Gearing ratio is interest-bearing debt/Average capital employed (shareholders' equity plus interest-bearing debt).

To Our Shareholders

Overview of Fiscal 2004

Crude oil prices rose to record levels during the fiscal year ended December 31, 2004, presenting Showa Shell with a challenge that we met without flinching. With crude oil accounting for the majority of the Company's manufacturing costs, Showa Shell has to react swiftly to rising prices of crude oil. Although not immediately apparent during the first half of fiscal 2004, Showa Shell succeeded in adjusting its gasoline and other prices to compensate for rising crude oil prices by the second half of fiscal 2004. Net sales for fiscal 2004 rose to ¥1,839.4 billion, up 6.5 percent year on year. With gross profit of ¥173.4 billion, the gross profit margin on net sales was 9.4 percent, up 0.3 percentage point from fiscal 2003.

A continuing effort to reduce costs enabled Showa Shell to lower its selling, general and administrative (SG&A) expenses to ¥113.2 billion, down 6.2 percent year on year. The ratio of SG&A expenses to net sales was 6.1 percent, down from 7.0 percent in fiscal 2003. As a result of these initiatives, income from operations rose significantly to ¥60.2 billion, up 67.3 percent from fiscal 2003.

Enhanced Profitability, Independent of Fluctuations in Crude Oil Prices

Ordinary income was significantly higher than our initial forecast, reaching a record-high ¥61.9 billion, up 62.2 percent year on year. In years when crude oil prices rise, profits tend to be boosted by the effect of valuation of inventory. For the fiscal year ended December 31, 2004, valuation gains on inventories boosted profits by ¥21.5 billion. The Company's ordinary income, based on the current cost of supply (CCS), minus valuation gains on inventories, was ¥40.4 billion, up 11.3 percent compared with ¥36.3 billion in fiscal 2003. This result indicates that Showa Shell's profits have grown steadily, independent of the ups and downs of crude oil prices.

Net income was ¥2.3 billion in fiscal 2004, due to the early adoption of accounting for impairment of assets, which will not be mandatory for two more years. The special loss from impairment of assets was ¥33.7 billion, which led to a temporary drop in net income. However, this move is expected to benefit Showa Shell by strengthening our financial position and improving the transparency of financial activities. Return on equity (ROE), calculated on a basis that eliminates special factors such as accounting for impairment of

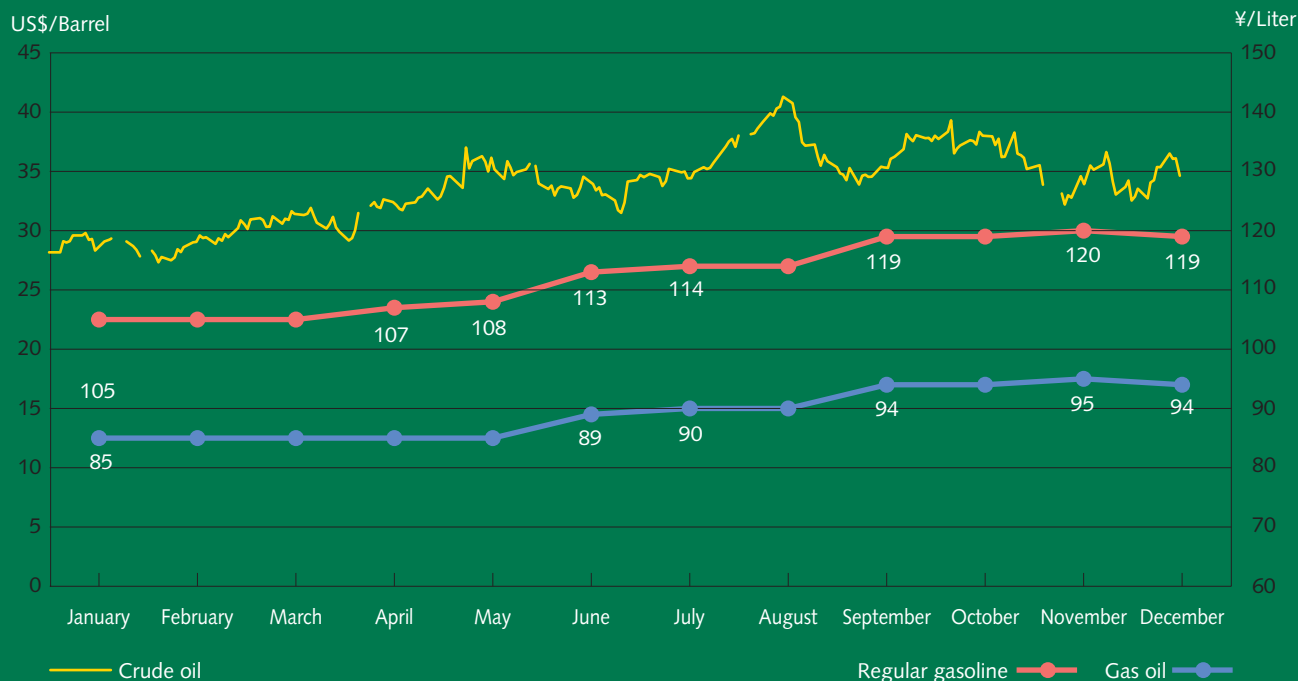


*Haruyuki Niimi, Chairman,
Representative Director*

*John S. Mills, President,
Representative Director*

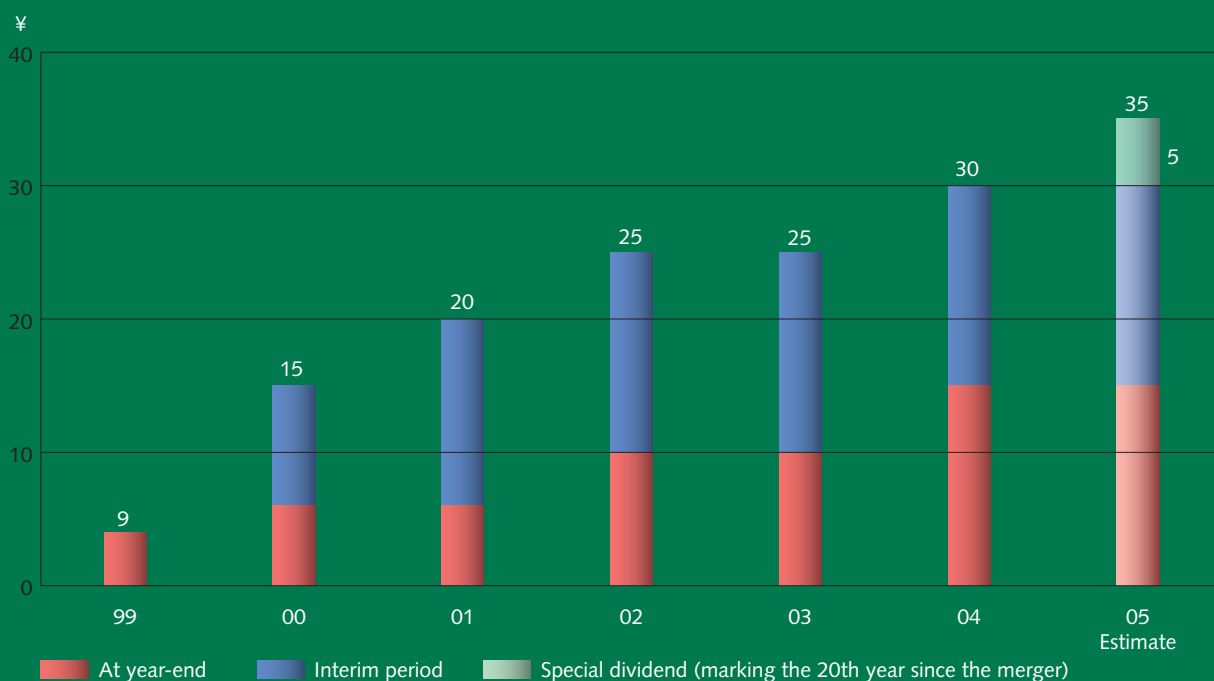
A year in which Showa Shell dealt with record rises in crude oil prices and redefined its true value as a corporation.

Crude Oil Costs and Retail Oil Prices in 2004



Source: Survey of Market Conditions for Oil Products Sold through Service Stations, The Oil Information Center.

Cash Dividends



assets and valuation gains on inventories, was 10.2 percent, improving 1.0 percentage point from 9.2 percent in the previous year.

Continuous Dividend Increases

Showa Shell has made steady gains in total annual cash dividends since the ¥9 dividend per share recorded in fiscal 1999. For fiscal 2004, the Company paid out a total annual cash dividend of ¥30 per share, up ¥5 year on year. The dividend increase reflects the Company's efforts to achieve a stronger financial position and improve both its cost-competitiveness and revenue earning capability.

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.

Embarking on the Path to Growth

Since 1996, Showa Shell has tended to maintain a balanced state of contraction due to its giving priority to strengthening its financial position. In fiscal 2004, capital expenditures exceeded the Company's depreciation for the first time in eight years, with capital expenditures of ¥25.3 billion exceeding depreciation of ¥24.7 billion. This performance was due to the Company's decision to embark on the path toward sustained revenue growth. As for capital expenditures, Showa Shell made strategic investments and loans, which included raising the investment ratio in Seibu Oil Co., Ltd., taking a stake in Marubeni Energy Corporation, and implementing acquisition of ITOCHU LubNet Inc. Other investments included the purchase of DM Gas Station, Inc., and financing to restructure a dealer in which Showa Shell had invested. In addition to conventional maintenance investment, notable investments in manufacturing equipment included strategic investments for adding value and environmental measures, through facility investment in plant and equipment to supply sulfur-free fuel with a sulfur content of less than 10 ppm.

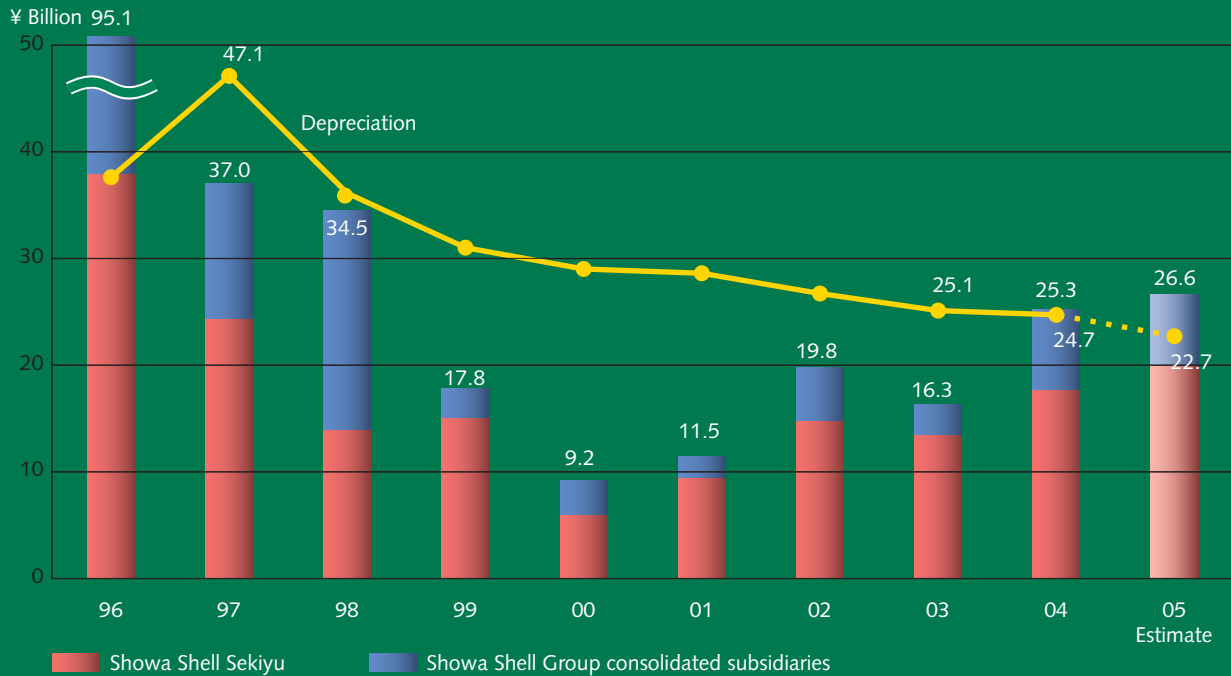
For fiscal 2005, Showa Shell is targeting net sales of ¥2,190.0 billion for a year-on-year increase of 19.0 percent. The goal for ordinary income is ¥60.0 billion, down 3.0 percent from fiscal 2004, while the net income objective is ¥35.0 billion, an increase of approximately 14.8 times over the previous years total. The expected drop in ordinary income in spite of higher net sales is due to the temporary boost in profits from valuation gains in inventories that occurred in fiscal 2004, and in no way indicates a drop in the Company's profitability. Ordinary income based on CCS is forecasted at ¥45.0 billion, increasing again by 11.3 percent over fiscal 2004. Showa Shell will meet its goals through proactive investment leading to sustainable revenue growth, paired with initiatives to further improve management efficiency.

Change in Shareholder Composition (Equity Participation by Saudi Aramco and Increase of Individual Shareholders)

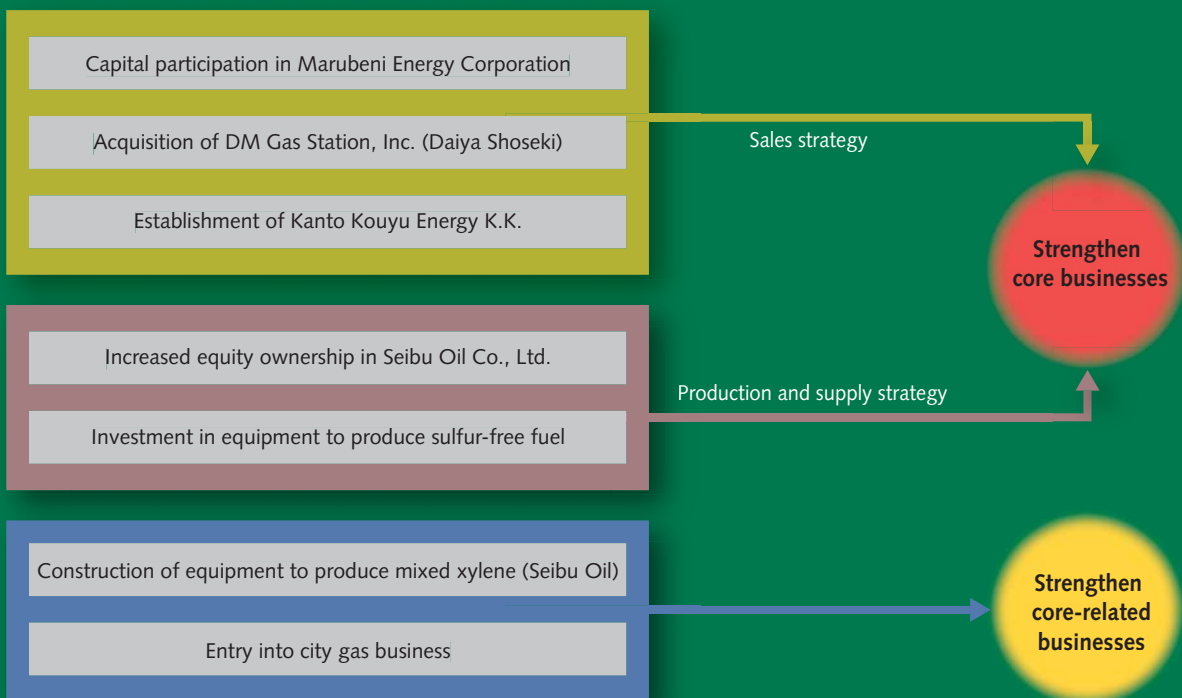
The shareholder makeup at Showa Shell changed significantly during fiscal 2004, when the Company gained a new partner in Saudi Aramco, the national oil company of Saudi Arabia, the world's largest oil producing nation. Saudi Aramco joins the Royal Dutch/Shell Group, one of the world's leading oil conglomerates, as a

Shifting from a balanced state of contraction to a path of growth. Showa Shell is increasing its capital expenditures to achieve sustained growth in revenue and income.

Capital Expenditures and Depreciation (Consolidated)



Capital Investments Based on Growth Strategy



major shareholder of Showa Shell. The equity participation by Saudi Aramco is important for Showa Shell's business as well as corporate governance.

In December 2004, Showa Shell issued a secondary offering that significantly increased the number of shareholders, individual shareholders in particular, which helped to improve the liquidity of the Company's shares on the stock market. In fiscal 2005, the Company will implement a further stock transfer that will give the Royal Dutch/Shell Group a 35 percent stake and Saudi Aramco a 15 percent stake in Showa Shell, with common shareholders holding a 50 percent stake.

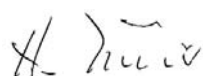
The "New Foundation" Philosophy

Showa Shell Sekiyu K.K. was formed 20 years ago through the merger of Showa Oil Co., Ltd., and Shell Sekiyu K.K. in 1985. In the first decade after the merger, the oil industry as a whole received protection under the Provisional Measures Law on the Importation of Specific Kinds of Petroleum Refined Products, or Special Petroleum Law. With the abolishment of Japan's Special Petroleum Law in April 1996, the ensuing decade has brought dramatic changes in the business environment for the Japanese oil industry and an industry restructuring. During this period of restructuring, Showa Shell renewed its focus on its core businesses and sought to reduce structural costs, enabling the Company to achieve a strong financial position and a level of profitability that leads the Japanese oil industry. However, recognizing the need to avoid complacency based on past success, we have adopted the "New Foundation" philosophy, aimed at securing an even brighter future for Showa Shell.

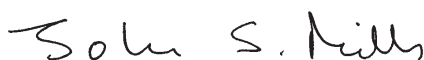
This philosophy encapsulates three major approaches for Showa Shell. The first approach is to break away from our past, in a good sense. This approach enables us to examine long-cultivated strengths to identify which strengths are necessary to achieve future growth, without unduly focusing on past success. The second approach is our decision to set out on a path of growth in an effort to increase profits driven by revenue growth, in addition to the previous focus on securing profits through efficiency improvements and cost reduction. Finally, the "New Foundation" philosophy symbolizes the beginning of a new era for Showa Shell, with the change in shareholder composition.

The "New Foundation" philosophy is also indicative of an even greater recognition by management of the need to fulfill Showa Shell's responsibilities to its shareholders. Due to changes in the composition of the Company's major shareholders, individual and institutional investors now comprise Showa Shell's largest group of shareholders. The management at Showa Shell is fully committed to ensuring that the Company meets the expectations of its individual and institutional investors.

We look forward to our shareholders' continued understanding of and support for the Showa Shell Group.



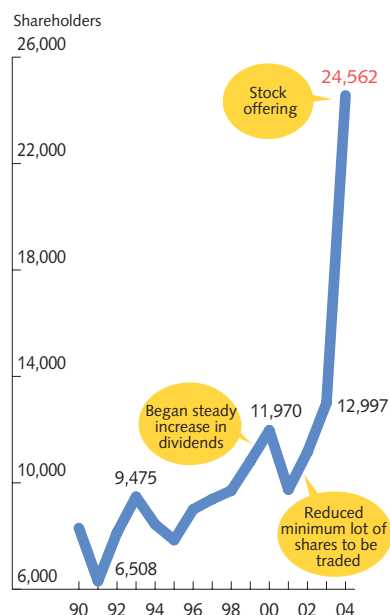
Haruyuki Niimi
Chairman, Representative Director



John S. Mills
President, Representative Director

Number of Shareholders

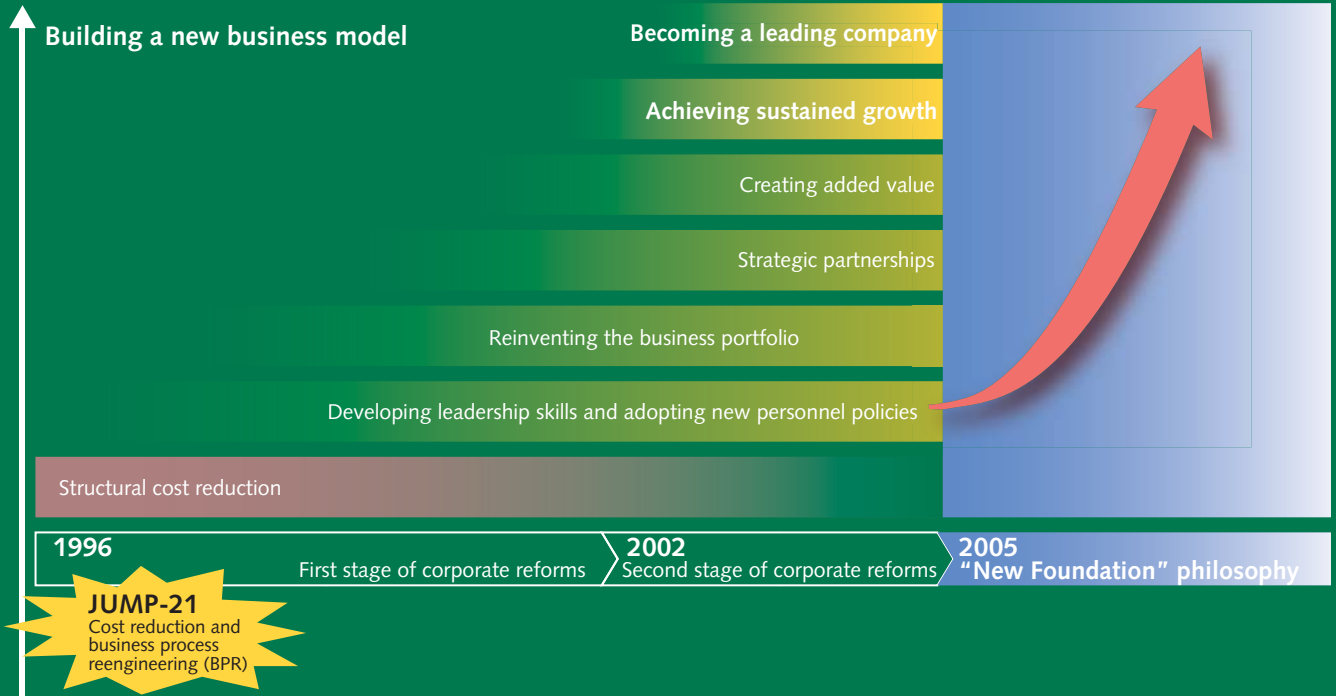
(1990–2004 Figures are before computer-aided name identification)



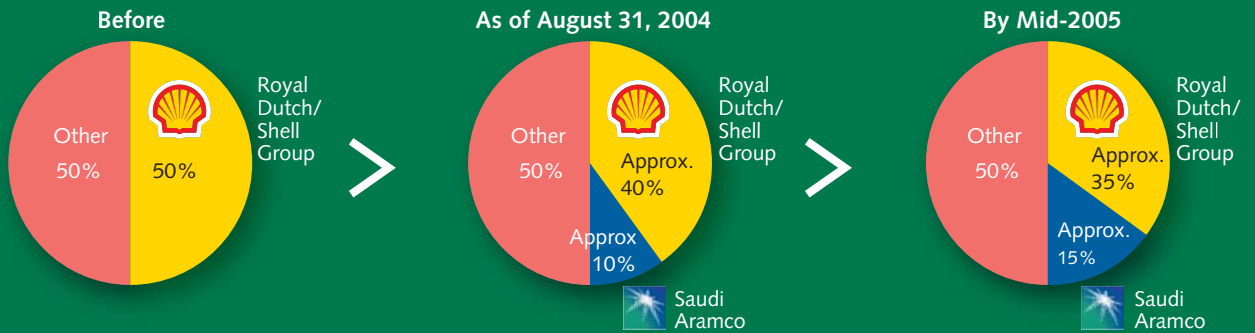
The number of individual shareholders has increased significantly as a result of a two-pronged strategy to boost the number of shareholders and improve stock liquidity. In October 2002, Showa Shell changed the minimum lot of shares to be traded from 1,000 to 100, and in December 2004 executed a stock offering of ten million shares.

In its 20th year, Showa Shell makes a new commitment to its shareholders: Build a "New Foundation"

Corporate Reform Program and New Foundation Program



Stock Transfer from Shell to Saudi Aramco



Signing Ceremony for Equity Transfer
 (From left): Rob Routs, Managing Director and Executive Director of Royal Dutch Petroleum Company; Haruyuki Niimi, Chairman and Representative Director of Showa Shell Sekiyu K.K.; Abdallah S. Jum'ah, President and Chief Executive Officer of Saudi Aramco; and Abdulaziz F. Al-Khayyal, Senior Vice President of Refining, Marketing & International of Saudi Aramco.

Senior executives of the three companies

Corporate Governance

To achieve sustainable growth and further enhance the value of the corporation, Showa Shell is taking initiatives to separate management and operations, to improve the transparency and efficiency of management. The Company is also taking active steps to incorporate outside, objective viewpoints into its management, to create an ideal corporate governance structure.



Directors

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

Mohammad S. Alshammari

Full-Time Auditor

Hisao Nozaki

Auditors

Takako Mohri

Akio Kioi

Executive Officers

Senior Managing Executive Officer

Jun Yui

Managing Executive Officers

Kanji Yamamoto

Jin Satou

Yukimichi Ikemura

Hideo Degoshi

Executive Officers

Shigeaki Kameda

Tadamitsu Fukuchi

Kazuo Murakami

Yoshitaka Takesawa

Tomoyuki Egami

Jun Arai

Atsuhiko Hirano

*(From left, front row):
Yoshihiko Miyauchi,
Haruyuki Niimi, John S.
Mills, Akio Kioi*

*(From left, back row):
Yasuo Murayama, Takako
Mohri, Roy D. Waight,
H. K. Lim, Mohammad S.
Alshammari, Masayoshi
Satake, Hisao Nozaki,
Shigeya Katou*

(As of March 30, 2005)

Corporate Governance in Action

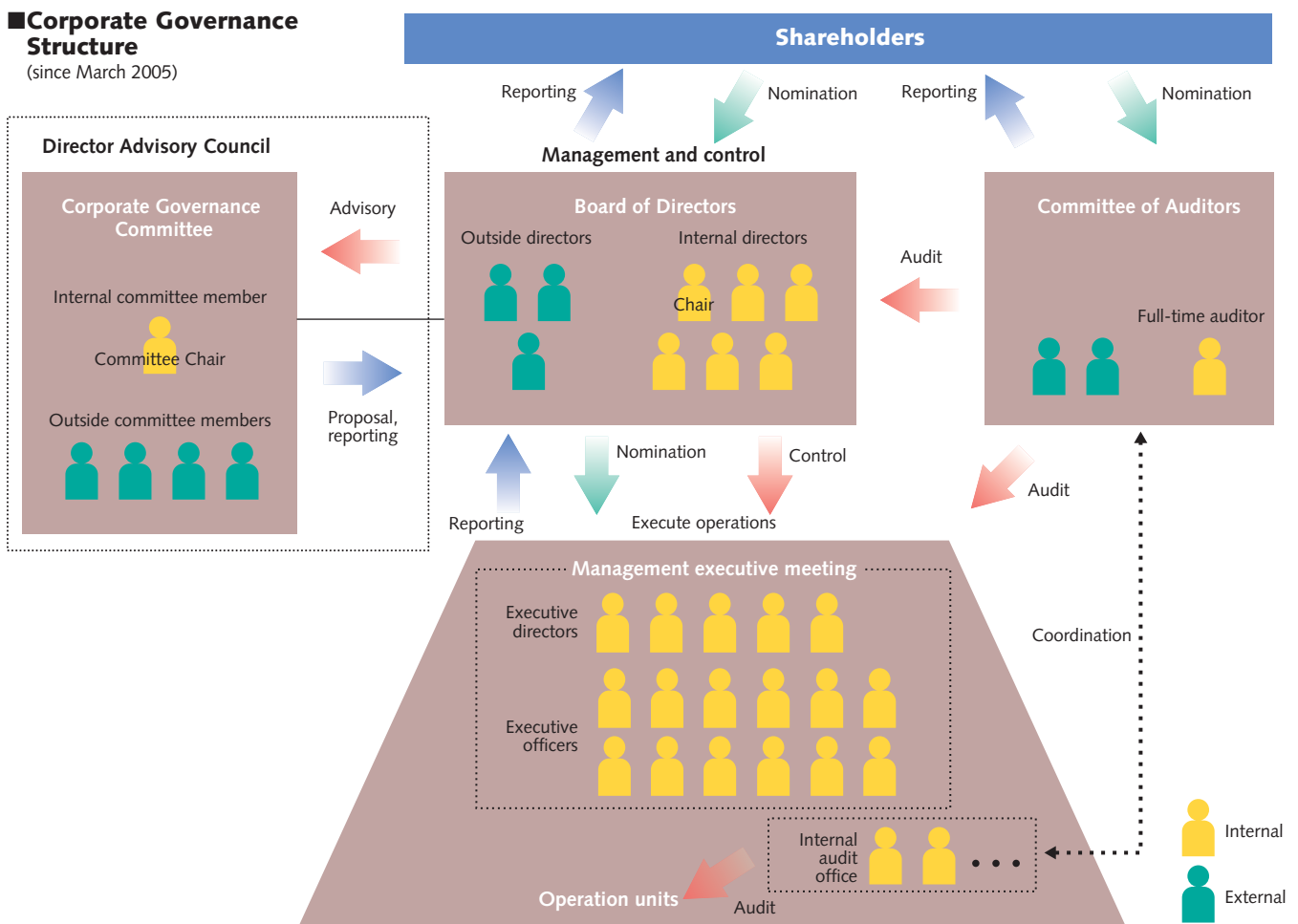
Showa Shell's Board of Directors comprises nine directors, including three outside directors. In addition to decision-making regarding crucial aspects of management strategy, the Board oversees Showa Shell's operations. Operating decisions are made at management operations meetings attended by the Company's executive officers. To achieve separation of management and operations, management operations meetings are held without the Chairman/Representative Director, who serves as the Board meeting chair, and the outside directors. The President/Representative Director of Showa Shell serves as the chair for management operations meetings.

The three-person Committee of Auditors consists of two outside auditors and one internal auditor. The Committee conducts operations and accounting audits to assist the Board of Directors in performing its duties. Internal auditing is carried out by the Auditing Department, which reports directly to the President and Representative Director. The Auditing Department conducts regular internal audits targeting divisional accounting, operations and compliance.

In 2004, Showa Shell established the Corporate Governance Committee as a permanent committee to advise the Board of Directors. The committee is designed to enable the Board of Directors to incorporate the views of outside experts, to enhance the transparency and objectivity of management. The five-person committee comprises the Board meeting chair with two outside directors and two outside experts.

Corporate Governance Structure

(since March 2005)



The Showa Shell Value Chain

Showa Shell Sekiyu's core business is the downstream oil business, consisting of refining, storage, transport and sales of petroleum products. The Company's strong relationship with the Royal Dutch/Shell Group, and the addition of Saudi Aramco as a new partner have created a solid foundation for crude oil procurement and research and development that is unmatched by competitors.

Showa Shell's value chain involves the implementation of various strategies for the oil business, resulting in a degree of leverage that is unrivaled in the Japanese oil industry. Among other successes, this leverage has enabled Showa Shell to continuously increase its market share of gasoline sales in Japan. Showa Shell will pursue a path of balanced expansion in all of its businesses.



Crude Oil Procurement

- Strong relationship with the Royal Dutch/Shell Group
- New partnership with Saudi Aramco

Petroleum Refining

- Start of sulfur-free fuel production at the group refineries
- Larger stake in Seibu Oil Co., Ltd.
- High refinery capacity utilization rate

Storage, Transport

- Reinforcement of cooperation with other companies
- Larger oil tankers and lorries
- Night-time lorry deliveries

Sales

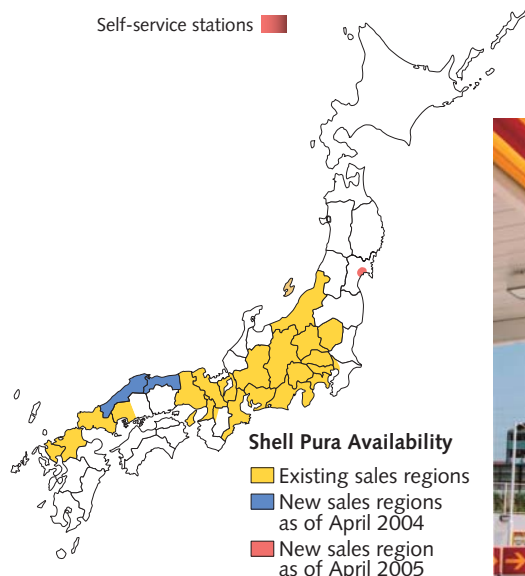
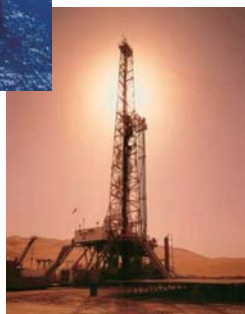
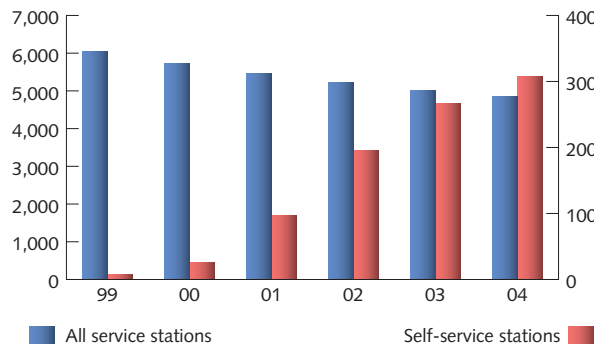
- Shell Starlex Card has 1.3 million active card members in Japan
- Expansion of sales area for Shell Pura high-octane gasoline; Shell Pura now accounts for 76 percent of Showa Shell's high-octane gasoline sales
- Release of Shell Helix Premium 0W-20 lubricant, enabling better fuel efficiency and environmentally friendly performance
- Capital participation in Marubeni Energy Corporation
- Pursuit of Japanese-style self service stations



ارامكو السعودية
Saudi Aramco



Number of Service Stations



New service station format with on-site cafe

New Business Initiatives

In addition to strengthening the competitiveness of its core oil business, Showa Shell is actively involved in exploring oil-related businesses and new areas of business that will sustain the Company's growth moving forward. Notably, Showa Shell is involved in a number of concrete initiatives in the field of environmentally friendly, alternative energies.

Showa Shell First to Test Market Gas-to-Liquids Fuel

Gas-to-liquids (GTL) fuel is synthesized from natural gas to produce a clean, environmentally friendly liquid fuel that contains almost no sulfur compounds and has virtually no odor. The Royal Dutch/Shell Group, a leader in the field of GTL technology, is involved in field tests conducted in many parts of the world.

In Japan, Showa Shell has been conducting field tests and test marketing of GTL kerosene and GTL diesel oil since 2001. The Company is also working in partnership with Toyota Motor Corporation and Hino Motors, Ltd. as part of a project sponsored by the New Energy and Industrial Technology Development Organization (NEDO) to develop diesel engines for GTL fuel. In December 2004, Showa Shell commenced test sales of the GTL-based Fan Premium brand of fuel for fan heaters and has tested its use as a potential fuel for heating.

The Showa Shell Group has announced plans to build a large-scale GTL plant in Qatar for completion in 2009, which will further cement its lead in both GTL technology and GTL fuel supply.

Expanding the Fuel Cell and Hydrogen Fuel Business

Since June 2003, Showa Shell, in partnership with Iwatani International Corporation, has been operating the Ariake Hydrogen Station as part of the Japanese Ministry of Economy, Trade and Industry's field test for hydrogen fuel cell vehicles and the Tokyo Metropolitan Hydrogen Supply Station Pilot Program. The field tests will enable Showa Shell to gain expertise in the construction of safe and efficient hydrogen-supply stations and to gain experience in their operation.

At Showa Shell's Central Research Laboratory, the Company is conducting research sponsored by the Japan Petroleum Energy Center (JPEC) to construct a hydrogen production system using hydrogen separation membrane and hydrocarbon reforming technology.

In fiscal 2005, the Company will expand its activities through several initiatives including the deployment of a fuel cell car manufactured by DaimlerChrysler and field tests of residential LPG fuel cell systems as part of a pilot fuel cell project by Mie Prefecture.

Release of Solar Power Generation System

The Showa Shell Group's solar battery power business was consolidated under Shell Solar Japan Ltd. during 2004. Shell Solar Japan has actively pursued the solar battery power business through various activities including the release of the Shell SunCiela solar power generation system for residential applications in June 2004.

Ogishima Power Project on Schedule

The Ogishima Power Project is an electric power generation business using liquefied natural gas (LNG) as a fuel, bringing together the respective strengths of Showa Shell and its partners, Shell Gas B.V. and Tokyo Gas Co., Ltd. An environmental assessment and field survey were completed on schedule in 2004, and the Company is steadily laying the groundwork to begin operations by 2009.



Ceremony for delivery of a fuel cell car



Fuel cell bus parked at Ariake Hydrogen Station



Shell SunCiela residential solar power generation system



LNG tanker

Corporate Social Responsibility in Action

Showa Shell recognizes that the sustainable growth of the Company not only depends upon economic factors such as revenue and dividends, but also requires a management approach that shows due care for the environment and community. By maintaining an open line of communication with stakeholders including shareholders, consumers, customers, business partners, employees and the community, Showa Shell is committed to affirming its responsibilities as a corporation and reflecting the input of stakeholders in management decisions, as well as to boosting corporate value.

In addition, the Company recognizes that it is responsible for taking independent action to achieve a vital and healthy revenue base.

Showa Shell's approach to achieving sustainable growth is outlined in its Management Philosophy and Corporate Goals, while its business activities are guided by the Code of Conduct in existence since 1997. (For more information, see page 30.)

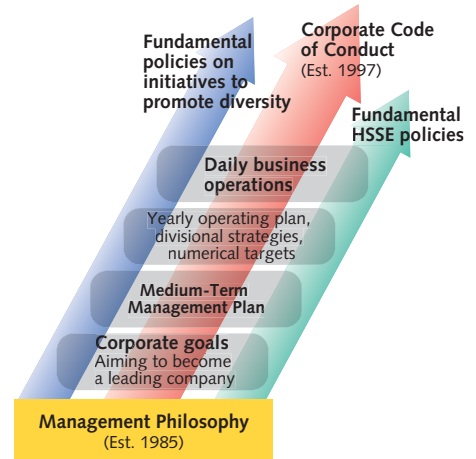
CSR Report

The modern business environment is changing at an ever-accelerating pace, and the expectations and demands of the Company's stakeholders have increased and grown more complex. In fiscal 2004, Showa Shell established a cross-divisional Corporate Social Responsibility (CSR) Working Group whose aim is to further raise the recognition of the Company's CSR initiatives among stakeholders. Showa Shell also published its *CSR Report 2004*, which incorporates two additional elements, "Society and Economy," into *Moderate*, the Company's environment report published since 1993. For more information, read the *CSR Report 2004*, at <http://www.showa-shell.co.jp/society/csr/index.html>.

Disaster Recovery Assistance for Niigata Chuetsu Earthquake

In response to the Niigata Chuetsu Earthquake that occurred on October 23, 2004, the Showa Shell Group worked with local communities in order to facilitate the quick recovery of areas affected by the disaster. The Company offered assistance by providing relief supplies, oil products, service station safety inspections by qualified subcontractors, and monetary donations.

Sustainable Development of the Company and Society



Self-Defense Forces vehicles receive oil products for transport to disaster areas.



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 Metropolitan District No.1 Area	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-8518
Tokyo Metropolitan District No.2 Area	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-7302
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	1-3-1, 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 950-8723	Tel: (025) 274-4141
Lubricant Blending Plants		
Yokohama	2-4, Anzen-cho, Tsurumi-ku, Yokohama, Kanagawa 230-0035	Tel: (045) 505-8201
Kobe	6-1-17, Namimatsu-cho, Nagata-ku, Kobe, Hyogo 653-0055	Tel: (078) 731-2035
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		
<i>Company name</i>	<i>Equity ownership</i>	<i>Major businesses</i>
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 transport, 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, sales and execution of materials used for waterproofing buildings, and manufacturing and sales of petroleum products and asphalt pavement
Shoseki Gas K.K.	100.0	Sales of liquefied natural gas; high-pressure gas and other petroleum related engineering works, and 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
Sailis 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	Environmental assessment, technological study, and business profitability study on electric power plant construction

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.

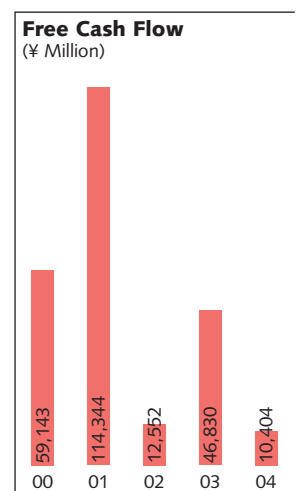
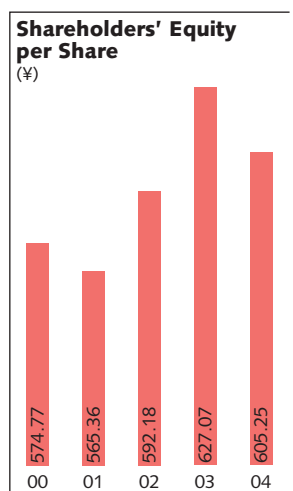
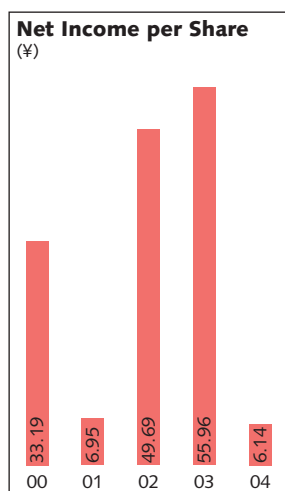
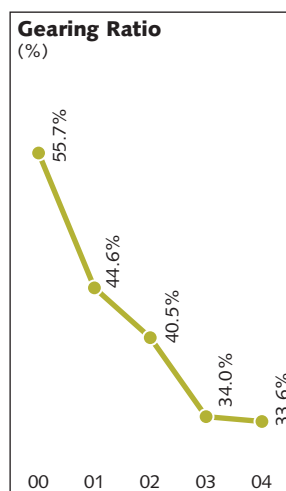
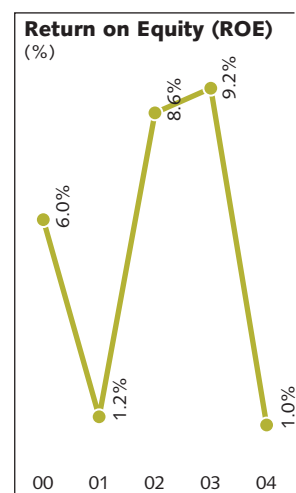
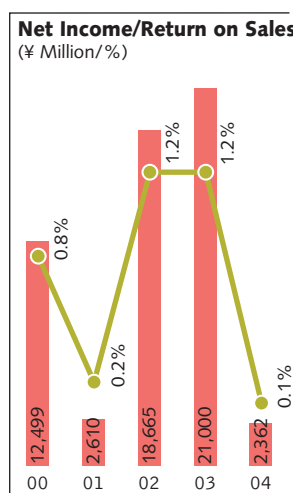
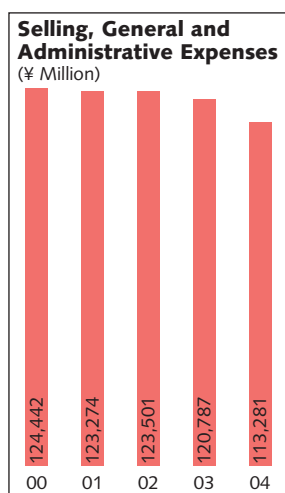
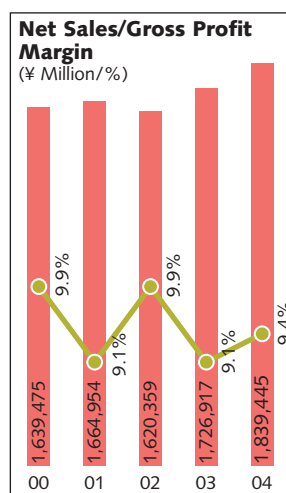
As a result, cash and cash equivalents decreased by ¥7.3 billion.

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.

Consolidated Balance Sheets

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
As of December 31, 2004 and 2003

	Millions of yen	
	2004	2003
Assets		
Current assets:		
Cash in hand and at bank	¥ 8,553	¥ 15,382
Notes and accounts receivable (Note 15)	233,033	219,482
Inventories (Note 4)	176,478	133,047
Deferred tax assets (Note 8)	7,723	5,702
Other current assets	25,089	21,752
Allowance for doubtful accounts	(324)	(431)
Total current assets	450,552	394,934
Fixed assets (Notes 7, 12 and 13):		
Property, plant and equipment:		
Buildings, structures and tanks	126,194	140,114
Machinery and equipment	100,982	105,889
Land	128,418	157,975
Others	4,652	4,774
Total property, plant and equipment	360,246	408,752
Intangible fixed assets	11,880	13,516
Investments and others:		
Investments in securities (Note 5)	36,462	26,592
Long-term loans	1,632	1,317
Deferred tax assets (Note 8)	27,402	22,342
Others	19,042	15,980
Allowance for doubtful accounts	(1,393)	(1,134)
Total investments and others	83,145	65,097
Total fixed assets	455,271	487,365
Total assets	¥905,823	¥882,299
Liabilities		
Current liabilities:		
Short-term debt (Notes 6 and 13)	¥ 56,338	¥ 55,892
Current portion of long-term debt (Notes 6 and 13)	24,299	12,614
Notes and accounts payable (Trade) (Note 15)	196,438	174,887
Accounts payable (Other) (Notes 13 and 15)	191,596	192,941
Income taxes payable	21,750	12,228
Reserve for bonuses	1,743	1,612
Other current liabilities (Note 15)	45,265	40,303
Total current liabilities	537,429	490,477
Long-term liabilities:		
Long-term debt (Notes 6 and 13)	34,145	52,444
Reserve for retirement benefits (Note 9)	79,408	79,562
Special reserve for repairs	10,292	9,645
Deferred tax liabilities (Note 8)	264	192
Other long-term liabilities	13,522	11,530
Total long-term liabilities	137,631	153,373
Total liabilities	675,060	643,850
Minority interests in consolidated subsidiaries	3,807	3,676
Contingent liabilities (Note 14)		
Shareholders' equity		
Capital stock:		
Authorized 440,000,000 shares		
Issued and outstanding 376,850,400 shares as of December 31, 2004 and 2003	34,197	34,197
Capital reserve	22,096	22,089
Retained earnings	169,114	178,102
Net unrealized gains on investments in securities	3,086	2,325
Treasury stock:		
1,981,642 shares as of December 31, 2004 and		
2,547,075 shares as of December 31, 2003	(1,537)	(1,940)
Total shareholders' equity	226,956	234,773
Total liabilities, minority interests and shareholders' equity	¥905,823	¥882,299

*All figures have been rounded to the nearest million.
The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Years ended December 31, 2004 and 2003

	Millions of yen	
	2004	2003
Net sales (Note 15)	¥1,839,445	¥1,726,917
Cost of sales (Notes 9 and 15)	1,665,979	1,570,156
Gross profit	173,466	156,761
Selling, general and administrative expenses (Notes 7, 9, 11 and 15)	113,281	120,787
Income from operations	60,185	35,974
Non-operating income (expenses):		
Interest and dividend income	289	492
Interest expenses	(2,344)	(2,879)
Exchange gain	246	1,824
Equity in earnings of non-consolidated subsidiaries and affiliates	997	667
Others	2,554	2,110
Sub-total	1,742	2,214
Ordinary income	61,927	38,188
Special loss (Notes 5 and 12)	37,113	1,251
Income before income taxes and minority interests	24,814	36,937
Income taxes (Current)	29,585	16,442
Income taxes (Deferred)	(7,206)	(616)
Minority interests in earnings of consolidated subsidiaries	73	111
Net income	¥ 2,362	¥ 21,000

	Yen	
	2004	2003
Per share data:		
Net income-basic	¥ 6.14	¥ 55.96
Net income-diluted	6.13	55.94
Cash dividends	30.00	25.00
Shareholders' equity	605.25	627.07

*All figures have been rounded to the nearest million.
The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Years ended December 31, 2004 and 2003

	Millions of yen	
	2004	2003
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	22,089	22,086
Profit on sale of treasury stock	6	3
Balance at end of the year	22,095	22,089
Retained earnings:		
Balance at beginning of the year	178,102	166,718
Net income	2,362	21,000
Increase resulting from merger of consolidated subsidiaries	19	—
Cash dividends	(11,235)	(9,354)
Bonuses to the members of the board and corporate auditors	(57)	(48)
Decrease resulting from inclusion of consolidated subsidiaries	—	(29)
Decrease resulting from merger of consolidated subsidiaries	(77)	—
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	¥169,114	¥178,102

*All figures have been rounded to the nearest million.
The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Years ended December 31, 2004 and 2003

	Millions of yen	
	2004	2003
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 24,814	¥ 36,937
Depreciation	24,653	25,138
Loss on impairment of fixed assets	33,728	—
Loss on disposal of property, plant and equipment	4,813	3,879
Gain on sale of property, plant and equipment	(1,715)	(2,052)
Loss on write-down of investments in securities	150	511
Increase (decrease) in allowance for doubtful accounts	150	(724)
Increase (decrease) in reserve for retirement benefits	(191)	(209)
Interest and dividend income	(289)	(492)
Interest expenses	2,344	2,879
(Increase) decrease in notes and accounts receivable	(13,160)	19,005
(Increase) decrease in inventories	(43,331)	8,912
Increase (decrease) in notes and accounts payable	25,633	(27,330)
Others	(5,819)	(4,126)
Subtotal	51,780	62,328
Interest and dividend income received	292	641
Interest expenses paid	(2,406)	(3,069)
Income taxes paid	(20,068)	(5,196)
Net cash provided by operating activities	29,598	54,704
Cash flows from investing activities:		
Payments for purchase of time deposits	(5)	(17)
Proceeds from maturity of time deposits	—	290
Payment for purchase of property, plant and equipment	(12,408)	(11,574)
Proceeds from sale of property, plant and equipment	3,723	3,898
Payment for purchase of investments in securities	(11,365)	(454)
Proceeds from sale of investments in securities	2,308	1,698
(Increase) decrease in short-term loans (net)	105	843
Payment of long-term loans	(519)	(282)
Proceeds from the collection of long-term loans	204	29
Others	(1,237)	(2,305)
Net cash used in investing activities	(19,194)	(7,874)
Cash flows from financing activities:		
Increase (decrease) in short-term debt (net)	(4,173)	20,652
Increase (decrease) in commercial paper (net)	4,000	(36,000)
Proceeds from long-term debt	6,000	2,100
Repayment of long-term debt	(12,614)	(16,488)
Proceeds from issuance of bonds	—	15,000
Payment for redemption of bonds	—	(15,000)
Payment for purchase of treasury stock	(8)	(4)
Cash dividends paid to minority interests	(101)	(100)
Cash dividends paid	(11,236)	(9,354)
Others	432	27
Net cash used in financing activities	(17,700)	(39,167)
Net increase (decrease) in cash and cash equivalents	(7,296)	7,663
Cash and cash equivalents at beginning of the year	15,151	7,165
Increase in cash and cash equivalents due to inclusion of consolidated subsidiaries	—	323
Increase in cash and cash equivalents due to merger of consolidated subsidiaries	458	—
Cash and cash equivalents at end of the year	¥ 8,313	¥ 15,151

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

	Millions of yen	
	2004	2003
Cash in hand and at bank on the balance sheets	¥ 8,553	¥ 15,382
Time deposits whose maturity periods exceed three months	(240)	(231)
Cash and cash equivalents	¥ 8,313	¥ 15,151

*All figures have been rounded to the nearest million.
The accompanying notes are an integral part of these statements.

(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 Companies provide 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 the 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 (fiscal 2003)>

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 yen compared with the results calculated based on the former method.

Special reserve for repairs:

The Companies provide 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% 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 Commercial Code of Japan 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 fiscal 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. ACCOUNTING CHANGE

Accounting standard for impairment of fixed assets:

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the statements of income by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005 or thereafter, with possible early adoption for fiscal years ended March 31, 2004 or thereafter.

The Companies adopted this standard with effect from the year ended December 31, 2004. As a result of this adoption, income before income taxes and minority interests decreased by 33,728 million yen.

4. INVENTORIES

Inventories as of December 31, 2004 and 2003 consisted of the following:

	Millions of yen	
	2004	2003
Finished products	¥ 64,961	¥ 44,875
Crude oil	47,670	35,987
Crude oil in transit	37,591	32,641
Work in process	21,426	15,325
Containers and supplies	4,830	4,219
	¥176,478	¥133,047

5. SECURITIES

a) Investments in securities as of December 31, 2004 and 2003 consisted of the following:

	Millions of yen	
	2004	2003
Available-for-sale securities	¥11,963	¥11,572
Investments in non-consolidated subsidiaries and affiliates	24,499	15,020
	¥36,462	¥26,592

b) Available-for-sale securities for which market value is available as of December 31, 2004 and 2003 were as follows:

	Millions of yen					
	2004			2003		
	Historical cost	Fair market value	Unrealized gain (loss)	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:						
Shares	¥1,851	¥6,155	¥4,304	¥1,923	¥5,744	¥3,821
Securities with unrealized loss:						
Shares	132	127	(5)	117	111	(6)

c) Amount of available-for-sale securities sold in the fiscal years 2004 and 2003 are as follows:

	Millions of yen	
	2004	2003
Amount sold during the year	¥103	¥659
Realized gain	23	57
Realized loss	2	33

d) Details of available-for-sale securities for which market value is not available as of December 31, 2004 and 2003 are as follows:

	Millions of yen	
	2004	2003
Available-for-sale securities:		
Unlisted shares (excluding OTC shares)	¥5,666	¥5,702
Unlisted bonds	15	15

6. SHORT-TERM AND LONG-TERM DEBT

Short-term debt as of December 31, 2004 and 2003 is summarized as follows:

	Millions of yen	
	2004	2003
Short-term bank loans	¥33,338	¥36,892
Commercial paper	23,000	19,000
	¥56,338	¥55,892

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

	%	
	2004	2003
Short-term bank loans	0.36%	0.27%
Commercial paper	0.01	0.01

Long-term debt as of December 31, 2004 and 2003, consisted of the following:

	Millions of yen	
	2004	2003
Loans from banks, other financial institutions, etc. due from 2005 to 2014	¥28,444	¥ —
Loans from banks, other financial institutions, etc. due from 2004 to 2013	—	35,058
0.71 per cent bond due 2010	15,000	15,000
3.25 per cent bond due 2005	15,000	15,000
	58,444	65,058
Less: portion due within one year	24,299	12,614
	¥34,145	¥52,444

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 of December 31, 2004 and 2003 were 1.65% and 2.25%, respectively.

Annual maturities of bonds are as follows:

	Millions of yen
	2004
Within one year	¥15,000
More than one year less than two years	—
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
	2004
Within one year	¥ 9,299
More than one year less than two years	6,358
More than two years less than three years	3,103
More than three years less than four years	684
More than four years less than five years	5,600
More than five years	3,400
	¥28,444

7. 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, 2004 and 2003 are as follows:

	Millions of yen					
	2004			2003		
	Acquisition costs	Accumulated depreciation	Balance	Acquisition costs	Accumulated depreciation	Balance
Buildings, structures and tanks	¥ 469	¥ 291	¥ 178	¥ 469	¥ 234	¥ 235
Machinery and equipment	2,745	1,447	1,298	3,229	1,644	1,585
Other property, plant and equipment	574	381	193	1,041	729	312
Intangible fixed assets	—	—	—	90	78	12
	¥3,788	¥2,119	¥1,669	¥4,829	¥2,685	¥2,144

Lease payments and depreciation for the years ended December 31, 2004 and 2003 amounted to 696 million yen and 791 million yen, 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, 2004 and 2003 are as follows:

	Millions of yen	
	2004	2003
Due within one year	¥1,672	¥1,922
Due over one year	3,345	3,652
	¥5,017	¥5,574

b) Operating Leases

	Millions of yen	
	2004	2003
Due within one year	¥ 83	¥23
Due over one year	180	46
	¥263	¥69

(2) Lessor

Finance leases

The scheduled maturities of future lease rental payments of finance leases as of December 31, 2004 and 2003 are as follows:

	Millions of yen	
	2004	2003
Due within one year	¥1,053	¥1,205
Due over one year	2,294	2,225
	¥3,347	¥3,430

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

8. 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, 2004 and 2003, are as follows:

	Millions of yen	
	2004	2003
<i>Deferred tax assets:</i>		
Non-deductible portion of reserve for retirement benefits	¥ 30,572	¥ 29,432
Loss on impairment of fixed assets	13,720	—
Loss on write-down of investments in securities	2,301	2,421
Loss on write-down of fixed assets	—	1,273
Non-deductible portion of allowance for doubtful receivables	430	356
Others	13,509	8,196
Sub-total	60,532	41,678
Valuation allowance	(14,384)	(2,788)
Total deferred tax assets	¥ 46,148	¥ 38,890
<i>Deferred tax liabilities:</i>		
Deferred gains on fixed assets	¥ (8,989)	¥ (9,009)
Unrealized gains on available-for-sale securities	(1,750)	(1,553)
Others	(548)	(476)
Total deferred tax liabilities	(11,287)	(11,038)
Deferred tax assets, net	¥ 34,861	¥ 27,852

(2) Reconciliation between the statutory tax rate and the effective tax rate as of December 31, 2004 and 2003, is as follows:

	2004	2003
Statutory tax rate	42.0%	42.0%
<i>Permanent differences:</i>		
Non-deductible expenses such as entertainment expenses	1.56%	1.11%
Non-taxable income such as dividend income	(3.27)%	(1.69)%
Loss on impairment of fixed assets	47.88%	—
Decrease in deferred tax assets due to tax rate change	—	1.95%
Others	2.01%	(0.52)%
Effective tax rate	90.18%	42.85%

<Additional information (fiscal 2003)>

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

9. RESERVE FOR RETIREMENT BENEFITS

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

(1) The reserve for retirement benefits as of December 31, 2004 and 2003 is analyzed as follows:

	Millions of yen	
	2004	2003
Projected benefit obligations	¥(102,076)	¥(102,877)
Plan assets	10,041	9,500
Unfunded benefit obligations	(92,035)	(93,377)
Unrecognized actuarial differences	13,308	14,554
Unrecognized prior service costs	(681)	(739)
	¥ (79,408)	¥ (79,562)

Notes: 1. Certain subsidiaries calculate the projected benefit obligation by the simple method permitted under Japanese GAAP.

2. At the time of retirement of employees, in some cases extra benefits might be paid, which are not included in the projected benefit obligations calculated by actuarial measurement on the basis of retirement and severance benefits.

(2) The net periodic pension expense related to the retirement benefits for the fiscal years 2004 and 2003 is as follows:

	Millions of yen	
	2004	2003
Service cost	¥2,084	¥2,071
Interest cost	2,491	2,907
Amortisation of unrecognized actuarial differences	1,255	954
Amortisation of unrecognized prior service costs	(57)	(57)
	¥5,773	¥5,875

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, 2004	As of December 31, 2003
	Method of attributing the projected benefits of services	Benefit/year of service approach
Discount rate	2.5%	2.5%
Expected rate of return	0%	0%

10. 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 in compliance with their internal policies. 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, 2004, 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

	Millions of yen					
	December 31, 2004			December 31, 2003		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Currency-related transactions						
To buy	¥20,477	¥20,598	¥ 121	¥14,565	¥14,452	¥(113)
To sell	3,513	3,542	(29)	3,219	3,213	6
			¥ 92			¥(107)
Commodity-related transactions						
To buy	19,640	21,470	1,830	18,997	19,228	231
To sell	18,612	20,496	(1,884)	18,975	19,182	(207)
			¥ (54)			¥ 24

Interest rate swaps which meet specific matching criteria are not measured at fair value but the net amount to be paid or received under the swap contract is recognized and included in interest expenses or income. The fair value information above is presented exclusive of these interest rate swaps.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major elements of selling, general and administrative expenses for the years ended December 31, 2004 and 2003 are as follows.

	Millions of yen	
	2004	2003
Transportation expenses	¥ 40,465	¥ 41,613
Salaries	28,293	28,859
Rent expenses	5,151	5,761
Depreciation	5,285	5,289
Research and development expenses	1,928	2,399
Others	32,159	36,866
	¥113,281	¥120,787

12. LOSS ON IMPAIRMENT OF FIXED ASSETS

For the year ended December 31, 2004, the Companies recognized loss on impairment of fixed assets as follows:

As a minimum unit for generating cash flows, service stations were assessed individually, and other fixed assets were basically grouped in sections used for management accounting, excluding those assets used for rent and non-performing assets. Such assets were assessed in their respective groups.

Recoverable value was assessed comparing net selling price and value in use. Net selling price was mainly adopted for non-performing assets and value in use for other assets. Net selling prices, if material, were assessed according to real estate appraisal standards. To calculate value in use, the future cash flows were discounted at 3.5%.

An impairment loss was recorded at the amount by which the carrying amount of each group of assets exceeded its recoverable value. For the year ended December 31, 2004, the Companies recognized impairment losses of 33,728 million yen on 321 groups of impaired fixed assets, which were accounted for as a special loss. They were primarily related to the significant decrease in the market value of the Companies' land as well as to the overall deterioration of their business environment. They consisted of the following:

	Millions of yen		
	2004		
	Land	Others	Total
Service stations (88 groups)	¥15,106	¥ 453	¥15,559
Assets for real estate business (2 groups)	1,143	—	1,143
Non-performing assets (231 groups)	11,344	5,682	17,026
	¥27,593	¥6,135	¥33,728

13. PLEDGED ASSETS

As of December 31, 2004, fixed assets of 111,339 million yen were pledged as collateral for certain liabilities of the Companies (26,659 million yen) and the affiliate (7,999 million yen).

14. CONTINGENT LIABILITIES

The Companies had the following contingent liabilities as of December 31, 2004 and 2003:

	Millions of yen	
	2004	2003
As guarantors of indebtedness of:		
Non-consolidated subsidiaries, affiliates and other companies	¥6,838	¥7,864
Employees	1,478	1,648
As discounters of notes receivable	148	—
	¥8,464	¥9,512

15. RELATED PARTY TRANSACTIONS

(1) Related Companies

Material transactions of the Company with its related companies, representing more than 10 per cent 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, 2004 and 2003 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 per cent 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 2004 and 2003 are as follows:

Name of related company	Capital stock (millions of yen)	Equity ownership by the Company (by the related company)	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2004	Account	Fiscal 2004
Saudi Arabian Oil Co., Ltd	—	(Indirect 10.0%)	Purchase of crude oil and materials	¥ 76,532	Accounts payable (trade)	¥21,430
Seibu Oil Co., Ltd.	8,000	Direct 38.0%	Purchase of petroleum materials	168,690	Accounts payable (trade)	38,582
Toa Oil Co., Ltd.	4,961	Direct 37.4%	Trust of refining petroleum	23,821	Other current liabilities	1,926
			Payment of gasoline tax	110,891	Accounts payable (other)	28,499
Marubeni Energy Corporation	2,350	Direct 33.4%	Sale of petroleum materials	105,643	Accounts receivable (trade)	14,342
Shell Eastern Trading (PTE), Ltd.	714 (millions of US dollars)	—	Purchase of crude oil and materials	265,803	Accounts payable (trade)	11,792
Shell Chemicals Japan Co., Ltd.	250	—	Sale of petrochemical products	57,727	Accounts receivable (trade)	9,584

Name of related company	Capital stock (millions of yen)	Equity ownership by the Company (by the related company)	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2003	Account	Fiscal 2003
Seibu Oil Co., Ltd.	8,000	Direct 24.5%	Purchase of petroleum materials	¥151,338	Accounts payable (trade)	¥33,325
Toa Oil Co., Ltd.	4,961	Direct 37.4%	Trust of refining petroleum	24,786	Other current liabilities	2,606
			Payment of gasoline tax	105,009	Accounts 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

(2) Related Individuals

Material transactions and balances of the Company with related individuals, including shareholders and directors, representing more than 1 million yen for the years ended December 31, 2004 and 2003 are as follows.

Name	Description of post	Ownership	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2004	Account	Fiscal 2004
Haruyuki Niimi	Representative director/ Chairman of Zaidanhojin Showa Shell Sekiyu Kankyo Kenyu Josei Zaidan	—	Donation	¥35	—	—

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	—	Donation	¥35	—	—
Yoshihiko Miyauchi	Director/ Representative director of Orix Baseball Club K.K.	—	Payment of advertisement fee	2	—	—

16. SEGMENT INFORMATION

(1) Business Segment Information

For the year ended December 31, 2004	Millions of yen					
	Petroleum	Real estate	Others	Total	Eliminations and corporate	Consolidated
I. Net sales and operating profit						
Net sales						
(1) Sales to outside customers	¥1,826,064	¥ 4,244	¥ 9,137	¥1,839,445	¥ —	¥1,839,445
(2) Inter-segment sales and transfers	129	130	6,695	6,954	(6,954)	—
Total sales	1,826,193	4,374	15,832	1,846,399	(6,954)	1,839,445
Operating expenses	1,769,195	1,855	15,157	1,786,207	(6,947)	1,779,260
Income from operations	¥ 56,998	¥ 2,519	¥ 675	¥ 60,192	¥ (7)	¥ 60,158
II. Assets, depreciation and capital expenditures						
Assets	¥ 849,187	¥28,720	¥ 8,537	¥ 886,444	¥19,379	¥ 905,823
Depreciation	23,612	1,013	28	24,653	—	24,653
Loss on impairment of fixed assets	15,559	18,169	—	33,728	—	33,728
Capital expenditures	14,379	146	23	14,548	—	14,548

For the year ended December 31, 2003	Millions of yen					
	Petroleum	Real estate	Others	Total	Eliminations and corporate	Consolidated
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

- 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. (Note for fiscal 2004) As mentioned in Note 3, the Companies adopted "Accounting Standard for Impairment of Fixed Assets" with effect from the year ended December 31, 2004.
7. (Note for fiscal 2003) 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 yen 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 years ended December 31, 2004 and 2003, 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 year ended December 31, 2004	Millions of yen		
	Asia	Others	Total
Overseas sales	¥118,311	¥82,118	¥ 200,429
Consolidated net sales			1,839,445
Overseas sales as a percentage of total consolidated net sales	6.4%	4.5%	10.9%

For the 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%

- 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) AsiaSingapore, China, Republic of Korea
(2) OthersU.A.E., U.S.A, United Kingdom, Switzerland, Bermuda (fiscal 2003 only)
3. Overseas sales are net sales of the Company and its consolidated subsidiaries in countries and regions outside Japan.

Report of Independent Auditors

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, 2004 and 2003, 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, 2004 and 2003, 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).

As described in Note 3, effective for the year ended December 31, 2004, SHOWA SHELL SEKIYU K.K. and its consolidated subsidiaries adopted "Accounting Standard for Impairment of Fixed Assets."

Chuo Aoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
March 30, 2005

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.

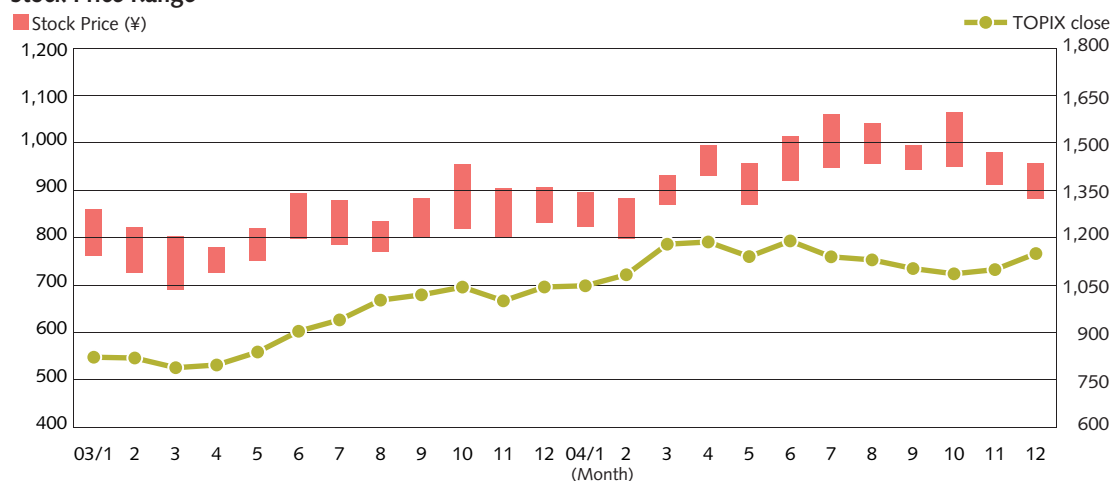
Investor Information

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:1,068
Total Number of Service Stations:4,853
Number of Shareholders:23,300
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 PricewaterhouseCoopers
General Shareholders' Meeting:March

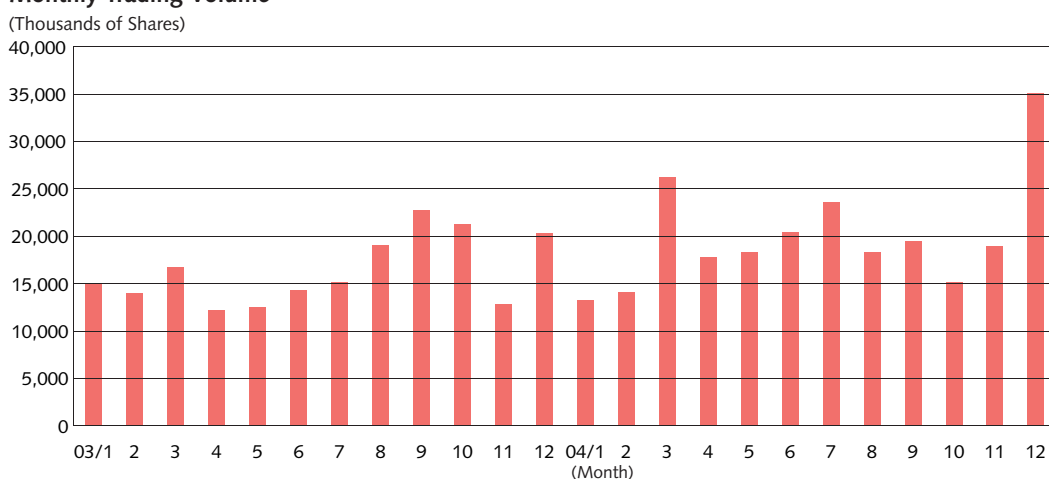
Major Stockholders

	Shares owned (Thousand shares)	Percentage of total common shares outstanding
The Shell Petroleum Co., Ltd.....	144,101.2	38.24%
Aramco Japan Holdings Company B.V.....	37,540.0	9.96
Japan Trustee Services Bank, Ltd.....	22,549.2	5.98
The Master Trust Bank of Japan, Ltd. (Trust Account).....	17,708.1	4.70
Mizuho Corporate Bank, Ltd.....	10,196.6	2.71
Trust & Custody Services Bank, Ltd.....	9,552.2	2.53
The Anglo-Saxon Petroleum Co., Ltd.....	6,784.0	1.80
The Chase Manhattan Bank.....	5,885.0	1.56
State Street Bank and Trust Company.....	4,254.9	1.13
Kawasaki Kisen Kaisha, Ltd.....	3,503.7	0.93
Total	262,074.9	69.54

Stock Price Range



Monthly Trading Volume



Showa Shell Sekiyu K.K.

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