

Date : 19<sup>th</sup> August, 2003

## Interim result for YR2003/1<sup>st</sup> Half

In this interim, we have attained ¥17.8 Bln consolidated ordinary profit, which exceeded that initially planned. CCS based consolidated ordinary profit was ¥17.5 Bln (increased 26.9 % compared with the last interim period).

Here, we will announce that we revise initial forecast of FY consolidated ordinary profit upward by ¥5 Bln to ¥35 Bln.

### 1.Main indicators

#### [Consolidated] Compared with YR2002 1H

Unit: Mln yen

		Difference	Change (%)
<b>Sales proceed</b>	876,673	98,255	12.6%
<b>Operating profit</b>	18,083	1,675	▲ 8.5%
<b>Ordinary profit</b>	17,800	3,987	▲ 18.3%
<b>Ordinary (CCS)</b>	17,552	3,722	26.9%
<b>Net income</b>	9,301	42	▲0.5%

#### [Unconsolidated] Compared with YR2002 1H

Unit: Mln yen

		Difference	Change (%)
<b>Sales Volume (K kl)</b>	20,484	608	3.1%
<b>Sales proceed</b>	846,962	104,125	14.0%
<b>Operating profit</b>	15,969	1,413	▲8.1%
<b>Ordinary profit</b>	16,999	4,320	▲20.3%
<b>Ordinary (CCS)</b>	16,751	3,390	25.4%
<b>Net income</b>	9,347	789	▲7.8%

CCS basis: Current Cost of Supply basis, which excludes the impact on reported profit of changes in stock values arising out of changes in crude price.

## 2.OUTLINE OF THE BUSINESS SITUATION

### (1). Progress and Results of Business

During this period in the Japanese economy, although there were some signs of improvement in corporate income, private sector investment still remained at a low level. Consumer spending was also at a standstill due mainly to poor prospects for the employment rate and general income levels. The Japanese economy as a whole remained depressed.

The Dubai crude oil price, which was in an upward trend at the end of the previous period, continued to rise as the situation in the Middle East grew tense, reaching \$30 just before the outbreak of the Iraq war. The oil price then fell dramatically and was only \$22 per barrel when the end of the war was declared. Thereafter, the price remained stable for a while before rising on the back of low stock levels, reaching \$26 per barrel, approximately the same level as at the beginning of the year, by the end of the period.

In the domestic oil markets, the demand for gasoline continued to increase steadily, but the demand for gas oil was lower than in the same period last year. The demand for kerosene as heating oil drastically increased when compared with last year's weak demand resulting from mild weather, as air temperature in the first quarter of this year was lower than average. The demand for fuel oil used for general industrial purposes remained weak due to the dismal economic situation, but fuel oil demand for power generation dramatically increased, due to a string of nuclear power plants shutdowns, when compared with the same period last year.

With regard to product prices, as intense competition continued against the backdrop of prolonged economic depression, consumer prices and retail prices did not rise as quickly as the crude oil price.

## **(2)The process of business activity**

### **<Transformation>**

In this business environment, we have been focusing our efforts upon various measures to further rationalize and increase the efficiency of our whole business operations, strengthen our management base and maximize the Company's profit.

In addition to our basic strategies executed since 1996, rationalization of the Company's business portfolio, structural cost reduction and creation of added value through the pursuit of customer-oriented operations, We have focused our efforts upon various measures to further transform the Company, enhancing growth potential and human resource development.

### **<Corporate governance>**

In order to pursue transparency and efficiency in management control structure and pursue segregation between business management and its operation, we have implemented further structural transformation since this April, as complying with the current legal requirement and adapting corporate auditors. The changes are as follows.

- 8 directors structure (reduced by 3 directors)
- Introduction of external directors (1 to 2)
- Clearly defining the authority and responsibility of directors and executive officers

By examining the contents of the forthcoming revision of the commercial law, we will investigate the most appropriate Corporate Governance for SSSKK.

Besides, in order to encourage internal communication and capture good ideas from the staffs, we established a "Compliance Committee" in this May. Also, in order to realize transparent, vital organization, "Voice of People" was established to hear and solve concerns and worries of staffs or to capture constructive opinions and originate proposals from them.

### **<Retail policy>**

In marketing, we have carried out various measures proposed in our retail sales guideline named "Retail Renaissance 21", the introduction of new products and services in order to promote

customer satisfaction, proposing outlet designs attractive to customers, and offering supportive schemes to strengthen the sales capabilities of our retail network. As specific activities for this campaign, we continued to invest in self-service outlets and expand the sales territory of a new high-octane gasoline, “Shell Pura”, by adding the western part of Japan, covering nearly 70% of total high-octane gasoline sales in the nationwide.

Furthermore, having perceived road transportation as an important point of contact with customers, we re-evaluated it as a marketing activity, and therefore created a business unit in charge of road transportation of fuels and its safe operation under the Company’s marketing directorship. In June, we also established a “Showa Shell fuel Customer Service Center” in order to integrate contact points for order-taking and product inquiries.

#### **<MF area>**

In refining and manufacturing, we enhanced safe and effective operation in the Company’s group refineries. In addition, we had reduced refining cost further and improved the yield of higher-value products in order to strengthen our competitiveness. Furthermore, as a countermeasure to environmental issues, we started in April the nationwide supply of low sulphur gas oil which contains less than 50 p.p.m. sulphur.

#### **<Distribution area>**

With respect to domestic distribution, we have been working to reduce overall logistics cost and further enhance our competitiveness by promoting the joint management of depots and product exchanges with other oil companies, and also by more effective utilization of assets. We have been also sought further efficiency by integrating product exchange operations.

#### **<HSE>**

With regard to environment and safety, in order to improve the Company’s “Health, Safety and Environment Management System”, we have been further enhancing our internal audit system.

### **3. Profit and Loss**

#### **<Consolidated basis>**

The consolidated Sales proceeds were 876.6 billion yen (12.6% increase compared with the interim period last year). Then, the Profit and Loss Statement shows that the ordinary profit was ¥17.8 billion, a decrease of ¥3.9 billion over the same period last year. This was the result of a large stock profit in the first half of 2002. Excluding the stock effects, the ordinary profit was ¥17.5 billion, an increase of ¥3.7 billion.

#### **<Unconsolidated basis>**

Total sales proceeds were ¥846.9 billion, (an increase of 14.0% when compared with the same period last year). As to profit and loss, operating profit, ordinary profit and NIAT were ¥15.9 billion (8.1% decrease), ¥16.9 billion (20.3% decrease) and ¥9.3 billion (7.8% decrease) respectably.

Like consolidated result, when excluding the stock effects, the ordinary profit was ¥16.7 billion, an increase of ¥3.4 billion.

### **4. Dividend**

We have decided to pay a 10 yen per share interim dividend this year. We plan to pay a final dividend of 15 yen per share, giving a total dividend for the year of 25 yen per share.

### 5.Forecast of YR2003

We foresee that severe pressure on profitability will continue reflecting high price of crude, weak demand due to excess capacity of supply and a sluggish economy etc. We are assuming a crude oil price of \$25.5barrel and exchange rate of 120.0 yen /US\$ for the second half of YR2003. Based on these premises, we estimate the following business result for YR2003, which have brought some changes in the initial forecast announced in the beginning of the year.

#### [Consolidated basis]

Sales	¥1,710 bln
Ordinary Profit	¥35 bln
Ordinary Profit (CCS)	¥35 bln
Net Income	¥18 bln

#### [Un-consolidated basis]

Sales	¥1,650bln
Ordinary Profit	¥32 bln
Ordinary Profit (CCS)	¥32 bln
Net Income	¥17 bln

\*The change from the initial forecast

#### [Consolidated basis]

Sales	¥60 bln increase
Ordinary Profit	¥5 bln increase
Ordinary Profit (CCS)	No change
Net Income	¥2 bln increase

#### [Un-consolidated basis]

Sales	¥60 bln increase
Ordinary Profit	¥6 bln increase
Ordinary Profit (CCS)	¥1 bln increase
Net Income	¥2 bln increase