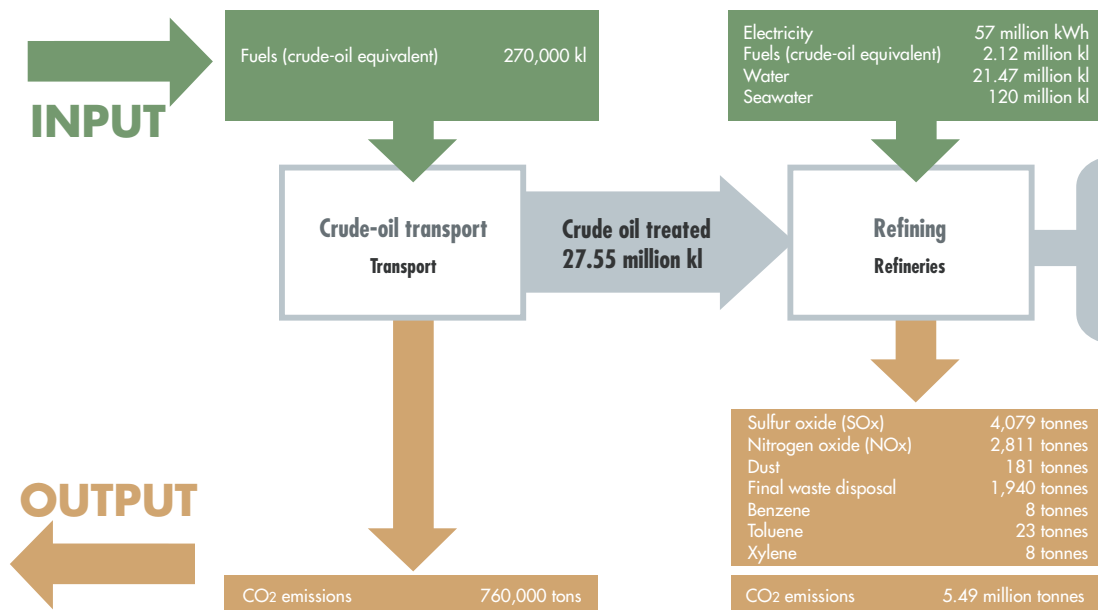


Environmental Initiatives

Drawing on its experience with the pollution issue in Japan's period of rapid economic growth, the Japanese oil industry makes a continuous effort to protect the environment at oil refineries.

The Showa Shell Sekiyu Group, as well, is making brisk capital investments with the objective of making its refineries more environmentally friendly. Showa Shell Sekiyu has installed flue gas desulfurization and denitration equipment, dust separators, wastewater treatment facilities, and other pollution prevention equipment, in an effort to reduce environmental pollutants emitted during the petroleum refining process. The company will continue working toward comprehensive improvements in pollution reduction technology, including the use of fuels that do not contain atmospheric pollutants and improvements to the equipment mentioned here.



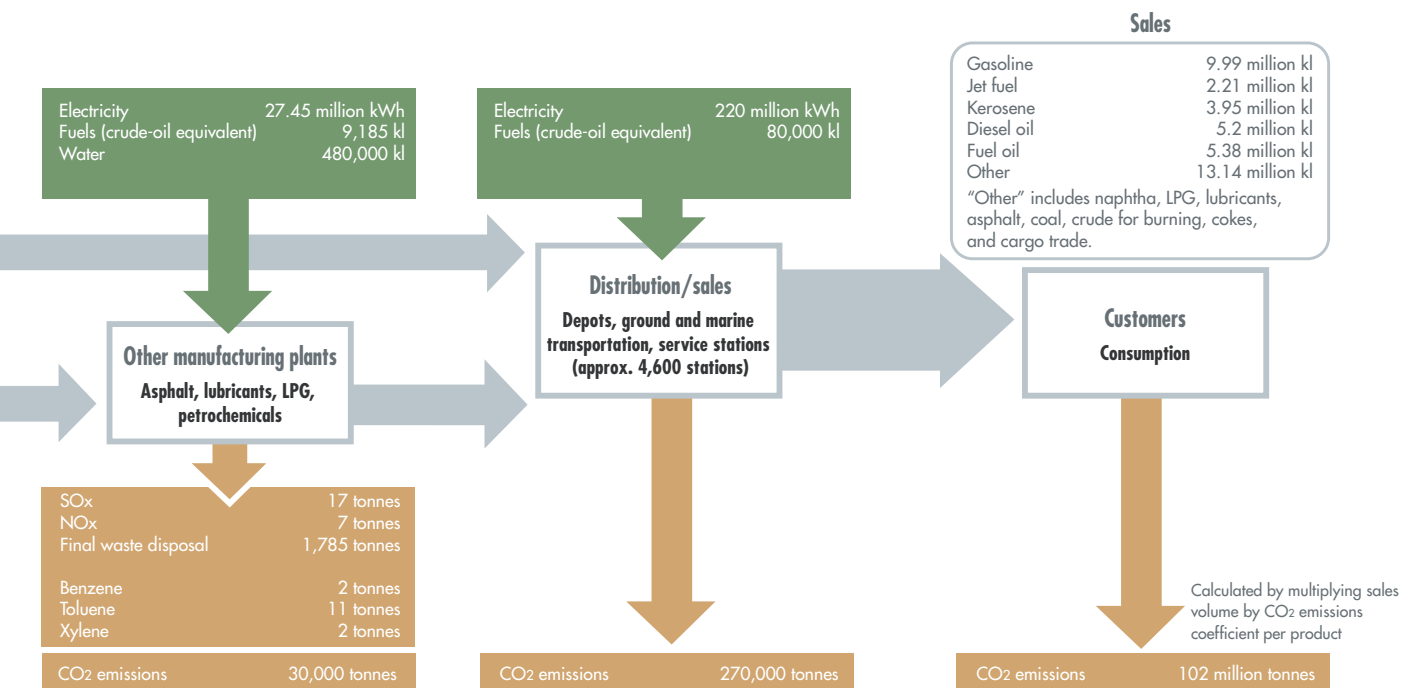
Medium-Term Environmental Action Plan

Thus far, Showa Shell has renewed its three-year action plan every year. However, the company has come to believe that it is necessary to take a longer-term perspective. Further, to execute essential environmental protection operations, we should strive continuously over a period of time to meet one target. Therefore, beginning with fiscal 2007, our medium-term targets will remain fundamentally unchanged over a three-year period, although we are still setting specific targets for each fiscal year.

The "2007 – 2009 Medium-Term Environmental Action Plan," established at the beginning of fiscal 2007, and its results in fiscal 2006, are shown in the table at right.

Type	Important Medium-Term Targets (2009)
Progress in environmental management	Thorough implementation of HSSE-MS by the entire Group
	Conduct planned internal audits and HSSE audits of departments
Energy conservation and global warming countermeasures	Reduce unit energy consumption at refineries to 8.02 by 2010 Through ECO TRY 21, pursue office energy and resource conservation programs
Anticipatory measures to prevent environmental pollution, and waste countermeasures	Reduce the volume of final disposal of industrial waste from the company's oil refineries by 95% from its 1990 levels; bring final disposal ratio below 1%
	Continuously execute of soil contamination countermeasures
	Continue to pursue the integrated management of chemical substances
Offering environmentally friendly products and services	Together with the Petroleum Association of Japan, Showa Shell will commence verification for full-scale commercialization of bio-gasoline (blended with Bio-ETBE)
	Broaden use and expand sales of CIS solar powered cells
	Expand use of household hydrogen fuel systems
	Conduct pilot to establish the potential acceptance of hydrogen fuel Make GTL a reality.
Environmental contribution and communication	Improve environmental communication through the Showa Shell Environmental Photo Contest.
	Promote and expand environmental protection in cooperation with outside organizations
	Support the promotion of learning in the field of environmental science
Other environmental activities	Ensure that all employees attend HSSE classes; introduce e-learning

❖ Overview of the Environmental Impact of the Supply Chain (2006 Accomplishments)



Fiscal 2006 Accomplishments	Fiscal 2007 Goals
HSSE-MS implemented in four departments and operational sites. (One new operational site received ISO 14001 certification.)	Implement HSSE-MS in nine departments and operational sites. Implement scheduled HSSE audits.
The status of HSSE-MS utilization is determined through internal audits, and by conducting 100% of the HSSE audits scheduled at the beginning of the year (status of implementation of the PDCA cycle).	Conduct internal audits and fully implement the audit plan, which incorporates the results of previous audits. Improve implementation of HSSE-MS at each location.
Unit energy consumption of 8.07.	Unit energy consumption of 8.03.
All departments and operational sites that use the HSSE-MS are worked to reduce electricity consumption by 4.6% from the previous fiscal year.	A 5.0% reduction in electricity consumption from the previous fiscal year.
Reduction of approximately 89% (weighted average), final disposal ratio of 4.5%.	Reduction of over 90% (weighted average), final disposal ratio 3.0%.
Investigated approximately 1,300 cases at company service stations.	Take measures at company service stations that need them.
Responded to Japan's revised Industrial Safety and Health Act (in connection with GHS) by preparing, distributing, and affixing labels.	Establish chemical substance management regulations, and practice companywide integrated management. Continue to comply with the revised Industrial Safety and Health Act (in connection with GHS) by further preparing and affixing MSDS labels.
Showa Shell agreed with the Petroleum Association of Japan to establish Japan Biofuels Supply LLP to handle the procurement of ETBE and bio-ethanol, which is a raw material for ETBE, and the sale and shipment of bio-gasoline to organization members.	On April 27, 2007, Showa Shell Sekiyu commenced sales of bio-gasoline at seven service stations in Tokyo and Chiba Prefecture). This project, operated jointly with the Petroleum Association of Japan, is partly supported by a grant from Japan's Ministry of Economy, Trade and Industry.
Construction commenced on a CIS solar powered cell manufacturing plant.	Commence sales of "solacis" CIS solar powered cells.
Pilot ongoing, sites increased by 10 to a total of 16 (Participation in METI's Large-Scale Stationary Fuel Cell Pilot Project).	Continue pilot, increase sites by 10 to a total of 26.
Continued operation of hydrogen stations.	Increase operating rate at hydrogen stations.
Shell Eco-kerosene sales outlets increased to 15 locations.	Study the expansion of the sales area and the supply system.
Sponsored the second contest; entries increased by 59% (a 59% increase in comparison with the previous year, addition of more entry categories, heightened awareness of the contest).	Hold the third contest (with the backing of the Ministry of the Environment); leverage the event in environmental improvement activities.
Studied joint activities with environmental NGOs.	Participate in the Project for Reforestation of the Mt. Fuji Forest in cooperation with the Organization for Industrial, Spiritual and Cultural Advancement (OISCA, an environmental NGO).
The Showa Shell Sekiyu Foundation for Promotion of Environmental Research provided aid to research (49 cases, ¥33 million).	Continue participating in the IR3S academic-industrial alliance to establish an energy sustainability forum.
Each department and operational site conducted HSSE education.	Teach the basics of HSSE through e-learning, and commence classes.

❖ Prevention of Atmospheric Pollution

In 2006, the emissions of atmospheric pollutants (SOx and NOx) from Group refineries were as follows.

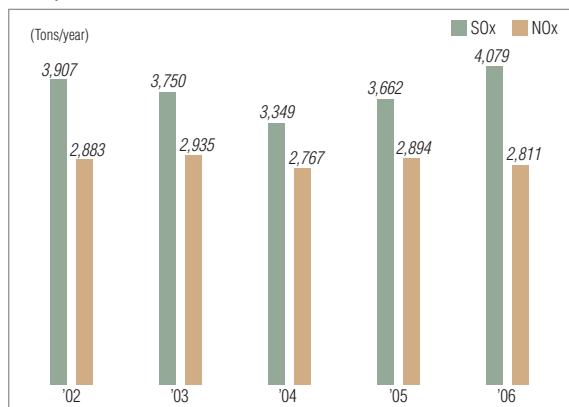
■ SOx

SOx is produced by fuel oils and gases in refinery furnaces and boilers. Showa Shell strictly maintains SOx emissions below regulation levels by using low-sulfur fuel oil and sulfur-free fuel gas cleaned by gas-cleaning equipment.

■ NOx

Showa Shell is implementing measures for removal of NOx, which is produced from flue gases by furnaces and boilers. Improved combustion methods, such as new low-NOx burners and flue gas denitration equipment, reduce the amount of NOx produced.

Total Volume of Atmospheric Pollutant Emissions by Group Refineries



❖ Prevention of Water Pollution

Refineries discharge coolant water and effluents used in all processes. After a check to prevent pollution, coolant water is discharged into the sea. Processed effluents that require treatment are cleaned through chemical treatment using oil separator flocculating agents, activated sludge treatment, or activated charcoal treatment. All effluents are confirmed to pass chemical oxygen demand (COD) environmental regulation values, including oil content values.

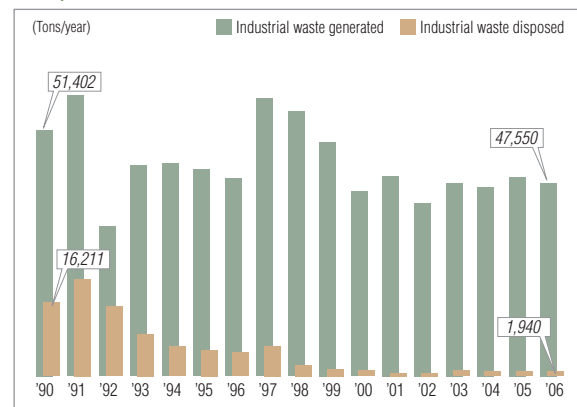
❖ Limiting Industrial Waste Generation and Recycling

The petroleum refining process generates a high volume of industrial waste, including sludge, tank sludge, and disposable catalysts. The Showa Shell Sekiyu Group is building a companywide waste management system to ensure the optimum disposal of waste and the reuse of resources.

In 2006, Group refineries generated approximately 48,000 tons of waste, of which 15,000 tons was recycled, and only 1,940 (4.1%) tons was consigned to final disposal.

The Showa Shell Sekiyu Group has set targets of reducing final disposal by 95% in comparison to 1990 by 2008, and cutting its final disposal ratio to below 1%, and is continuously working toward this goal.

Total Volume of Atmospheric Pollutant Emissions by Group Refineries



❖ Chemical Substance Management

Japan's Law Concerning Reporting, etc. of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in Their Management (PRTR Law) is intended to motivate businesses handling such hazardous chemicals to control emissions voluntarily by publicly reporting the volumes that they handle and the amount of their emissions.

Benzene, toluene, xylene and other chemicals found in gasoline are controlled under the PRTR Law. There is a substantial possibility of these substances escaping to the atmosphere when gasoline is put into or stored in a tank. Today, though, improvements in tank and filling equipment have substantially reduced such emissions to the atmosphere.

❖ Soil Contamination Countermeasures

Oil leaks to the soil can occur in places not readily visible to the eye, causing serious damage to the environment before they are detected. The Shell Group has developed a variety of technologies to prevent and remediate soil contamination, and Showa Shell was quick to adopt the Network for Environmental Risk Assessment (NERA), the soil contamination risk evaluation system developed by the Shell Group, and execute soil contamination countermeasures.

In 2006, the company completed voluntary soil contamination surveys at 1,200 Showa Shell-owned service stations, and moved forward with voluntary soil contamination countermeasures in facilities and land areas other than those service stations.

The company then used NERA to assess soil contamination risk at approximately 4,500 Showa Shell service stations. The results were communicated to the operators of the service stations.

❖ Environmental Accounting

Environmental accounting is used to determine the costs and effects of protecting the environment in Showa Shell's business activities, measured as quantitatively as possible.

The Showa Shell Sekiyu Group is making substantial investments to manufacture products that have a reduced impact on the environment, and to reduce its environmental impact in the manufacturing and supply stages.

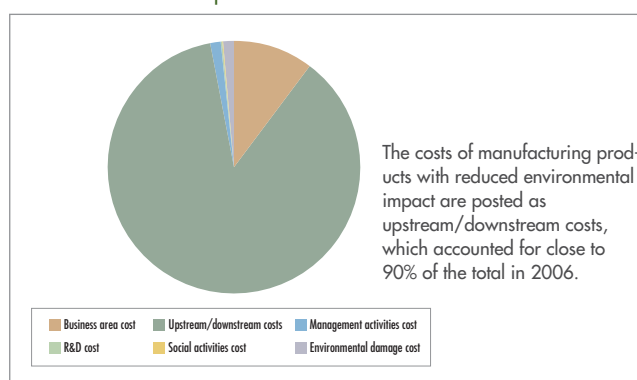
For 2006, we calculated the environmental protection costs. The target effects of our environmental protection and economic activities for 2007 are also calculated and listed on the website.

❖ Environmental Standards

The Showa Shell Sekiyu Group conducts environment assessments prior to any large-scale development or construction of facilities, and evaluates the potential effects of the plan on the environment. The Group works together with government agencies and local citizens to minimize the environmental impact of every project.

Showa Shell is moving forward with the use of its HSSE-MS. In the interest of environmental protection, the company compiled its environmental measures into its Environment Standard in 2006. Based on the standard, it is taking concrete measures to promote the reduction of greenhouse gas emissions, take soil contamination countermeasures, improve oil-spill responses, and undertake other environmental protection activities.

Breakdown of 2006 Expenses



Costs Associated with Environmental Protection (January to December 2006) (million yen)

Item	Total investments	Comparison with previous year	Management cost	Comparison with previous year
Business area cost				
• Pollution prevention cost	520.6	+411.8	8,788.0	+468.6
• Global environment protection cost				
• Resource circulation cost				
Upstream/downstream cost	1,622.6	+1,154.3	74,513.4	+39,168.6
Management activities cost	0.0	-0.4	1,154.1	+531.8
R&D cost	0.0	-4.2	175.2	-111.7
Social activities cost	0.0	± 0.0	85.0	-41.3
Environmental damage cost	0.0	± 0.0	1,188.2	+1,080.4
Total costs	2,143.2	+1,561.5	85,903.9	+41,096.4