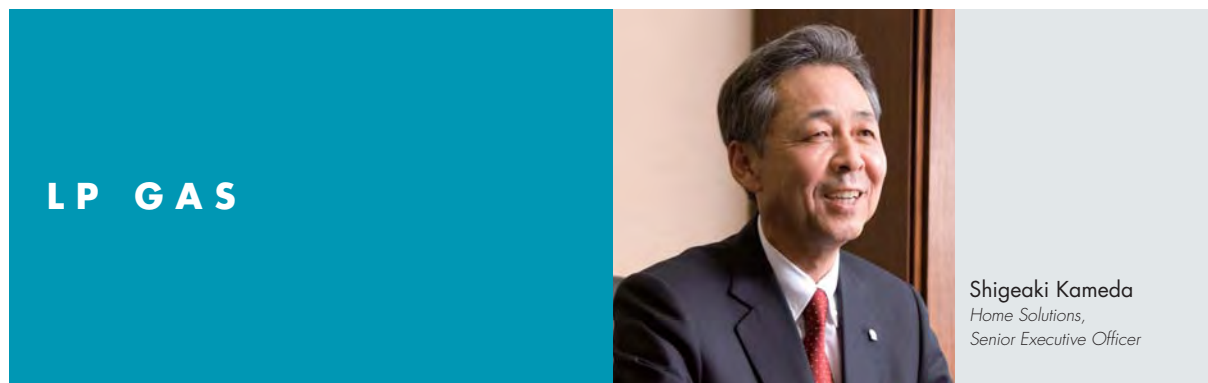


REVIEW OF OPERATIONS



Overview of Business Operations

In our LP gas business, we distribute LP gas refined at Showa Shell Group’s refineries and imported LP gas products for the domestic market through our dealers. Our main products and their users are Clean Propane for households and stores, Clean Auto for automotive purposes, chiefly taxis, and Clean Butane for industrial and consumer gas applications as well as basic materials for chemical products. As procurement and production costs of LP gas edge upwards and remain at high levels in line with crude oil price hikes, demand declines and competition between energy types are exacerbating the severe conditions of business environment.

LP gas Business Merger with Sumitomo Corporation

To strengthen our competitiveness in this difficult environment, Showa Shell decided to enter into a business alliance with Sumitomo Corporation and in December 2007 we signed a basic agreement to integrate the gas operations of both companies. We will consolidate import and domestic supply operations of the two companies into Showa Shell Sekiyu and we will establish a holding company, Enessance Holdings Co., Ltd, to control the

sales subsidiaries. Showa Shell will hold a 51% equity interest in the holding company and Sumitomo Corporation the remaining 49%.

Two main outcomes can be expected from the business merger. The first is an improvement in management efficiency through cost reduction. In the area of distribution, this will be achieved through the consolidation of supply operations, the streamlining of service stations, and joint delivery operations. In the area of management, the consolidation of administration operations of the distribution subsidiaries in a holding company will result in lower costs. The second outcome is the prospect of improving profitability by taking advantage of our large customer base of about 200,000 households to provide value-added services in addition to supplying LP gas.

Providing Household Services

One of the advantages of the LP gas business is our direct communication with customers as our affiliated suppliers deliver products right to the customer’s door. Utilizing this direct access, our new businesses such as CIS solar powered cells, fuel cells, home security, and housework services are also being developed.

New Sales Network of LP Gas Business

