

INVESTMENT AND FINANCIAL STRATEGY

Showa Shell's policy is to ensure an efficient and stable supply of the funds necessary to strengthen its financial position and carry out its growth strategy while continuing the payment of stable dividends.

Investment Strategy

Showa Shell is determined to realize sustainable growth by investing financial resources in the expansion of its oil business and the further promotion of efficiency in the oil business and in peripheral and non-oil businesses.

- **Operational maintenance and safety measures in the oil business:** We will continuously carry out the maintenance and renovation of refineries and other major facilities.
- **Reinforcing earning power in the oil business:** We will make investments to develop service stations, expand our sales network, and improve the efficiency of our refining and distribution facilities.
- **Creation of synergy between existing businesses and entry into new business fields:** We will invest in new initiatives such as the CIS solar powered cells business and the development of new energies and also invest in other business areas that are expected to create synergies with our existing business, such as our electrical power business, city gas business, and total home solutions business.

Showa Shell carefully selects projects for investment taking into consideration the internal rate of return (IRR), payback period, and other economic indices.

Strengthening Our Financial Position

Showa Shell is working to strengthen its financial position by maintaining an optimal capital structure for securing a stable supply of funds while pursuing the minimization of financing costs. Since 1995, we have greatly reduced interest-bearing debt through the disposal of non-performing assets, the restriction of unnecessary and nonessential investments, and other means. Consequentially, the amount of our consolidated interest-bearing debt (net basis, subtracting cash equivalents) as of the end of 2007 stood at 166.6 yen billion with a gearing ratio of 33%.

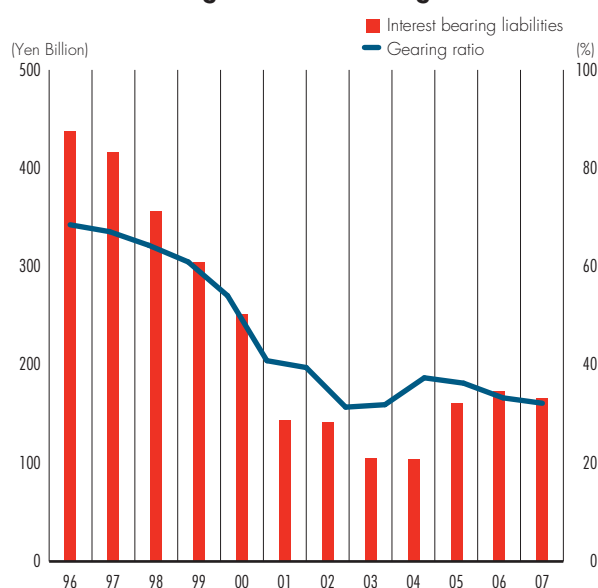
Financing Policy

Showa Shell finances funds through cash flow from operations, financial institutions, and the capital markets. We attempt to lower our funding cost by making aggressive use of the capital market based on our credit ratings.*

We are working to maintain the stability of funds by establishing a ratio of long-term to short-term debt that takes into consideration the time needed to recover invested capital, given that Showa Shell has a significant amount of fixed assets, which is a characteristic of a capital intensive industry. We are also striving to diversify procurement from financial institutions by making use of national banks, loan and trust companies, regional banks, Norinchukin Bank, Shinkin Banks and other financial institutions for small businesses, and life insurance companies.

* Note: As of March 2008, Rating and Investment Information, Inc., (R&I) has given Showa Shell's bonds an A rating and its commercial paper an a-1 rating.

Interest Bearing Liabilities/Gearing Ratio



Financial Risk Management Policy

Showa Shell has signed revolving credit contracts (i.e. line of credit agreements) totaling 150 yen billion with financial institutions in addition to its normal financing limits as a means of securing liquidity of funds. Of these lines, 140 yen billion is in the form of earthquake response financing (amount current as of the end of March 2008). In this way, we have made preparations to procure funds needed to reopen operations swiftly in the event that a major earthquake damages our main production facilities.

As for property and casualty insurance, we have insured against all risk above a certain threshold in order to ensure operational stability and mitigate any negative effects on business performance of a major natural disaster or accident.

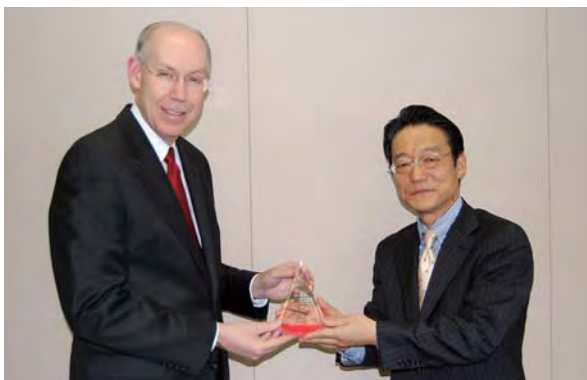
Furthermore, in purchasing crude oil and other foreign currency transactions we have prepared for sudden fluctuations in exchange rates by taking currency hedges within the limits of actual demand.

Group-Wide Financial Management

We seek to reduce financing costs by concentrating the Group's procurement funds at the parent company. We increase the efficiency of funds within the Group by connecting the financial activities between group companies through a Cash Management System (CMS).

Shareholder Return

In 2007, Showa Shell paid dividends of 36 yen per share, the same amount as in the previous year. We are committed to continue payments of stable dividends while securing sufficient funds to strengthen our financial position and carry out our growth strategy.



Vice President Director Carruth (left) accepting presentation of a commemorative gift from Mr. Akira Segawa, Managing Executive Officer of Mizuho Corporate Bank, Ltd., in commemoration of the conclusion of a special earthquake response line of credit agreement.