

At a Glance

Oil Business

Main Businesses

Domestic Fuel Oil Sales

- Sales of gasoline, diesel, heating oil and automotive lubricants for service stations
- Sales of diesel, heating oil, fuel oil, LNG, industrial lubricants, etc. for industry

LPG (Liquid Petroleum Gas)

- Production and sales of Clean Propane for homes and commercial stores
- Production and sales of Clean Auto for automobiles
- Production and sales of Clean Butane gas and Clean Mix for industrial applications

Special Products

- Production and sales of lubricants and greases
- Production and sales of bitumen for road paving, compounds for construction material products
- Sales of fuel and lubricants for jets and vessels

Manufacturing

- Crude oil refining and production of oil products

Exports and Petrochemicals (Feedstocks)

- Exports of diesel and other refined oil products
- Production and sales of mixed xylene, benzene and propane

Non-oil Business

Main Businesses

Next-Generation CIS Solar Business

- Production and sales of next-generation CIS solar powered cells

Power Business

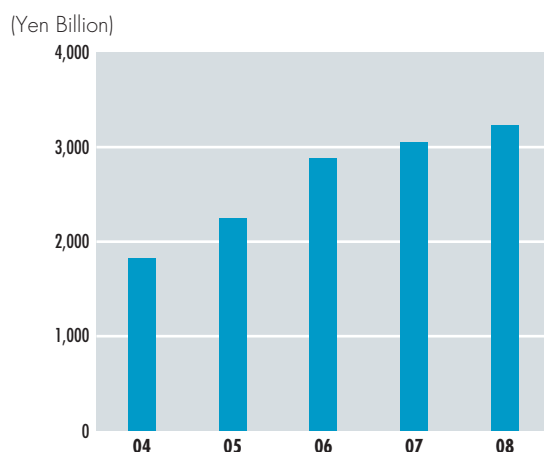
- Retail and wholesale of electric power

Oil Business

Showa Shell's oil business covers from crude oil procurement to refining and sales. Crude oil procurement, centered on major shareholder Saudi Aramco, is conducted through links with other oil producing Middle Eastern countries and the Shell Group. In this way, we pursue crude oil procurement on a continuous basis that is flexible and optimally configured for Showa Shell Group refineries. In refining, we maintain consistent and efficient operations by executing the investments and initiatives to improve the reliability of our refineries. At the same time, we are growing the presence of high value-added products in our product mix.

With respect to sales, in domestic fuel, we are enhancing our capacity for meeting customer needs as well as competitiveness, while promoting exports in response to declining demand for oil products in Japan. We are also taking steps in production and sales of liquefied petroleum gas, special products, such as lubricants, and petrochemical products, to strengthen our profitability.

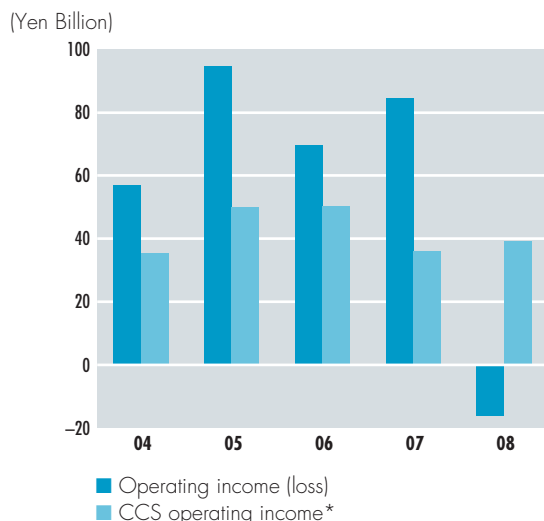
Net sales



2008 in Review

In terms of performance, sales in the oil business amounted 3,236 billion yen (an increase of 6.2% versus a year ago). The company posted an operating loss of 16.3 billion yen (a decrease of 100.8 billion yen versus a year ago) strongly impacted by the inventory evaluation. On a Current Cost of Supply (CCS) basis, which excludes the effect of inventory appraisals, operating income rose 3.3 billion yen over the previous year to 39.4 billion yen.

Operating Income (Loss)



* CCS operating income (operating income on Current Cost of Supply basis): operating income based on costs excluding inventory valuation effects.

Upcoming Strategies

We are implementing strategies specific to our product supply and sales divisions to improve competitiveness through our supply chain and to enhance profitability.

In product supply divisions, in addition to effectively utilizing the sophisticated heavy oil cracking equipment of Showa Shell Group refineries, we are examining ways to further upgrade facilities to produce highly competitive products attuned to domestic and international market requirements. We will also maintain stable and safe operations to minimize equipment trouble and other issues.

In sales divisions, in addition to our focus on sales that meet customer needs by expanding our highly profitable network, we will strive to boost our profitability through bolstering sales of high value-added products with outstanding environmental performance.



Tsuyoshi Kameoka
 CORPORATE EXECUTIVE OFFICER
 Sales, Commercial Sales,
 Marketing Planning,
 Retail Sales, and Branch Offices

Domestic Fuel Oil Sales

Business Environment

Fuel oil sales in Japan are broadly divided into two categories: retail sales of fuel for service stations and sales of fuel for industrial use to customers in the manufacturing, transport, electric power, agriculture, forestry, and fisheries industries. Our main products of gasoline, diesel oil, heating oil, heavy fuel, and automotive lubricants are sold to customers in Japan through our dealers.

Because of extremely volatile crude oil prices in 2008, domestic product prices fluctuated more widely than in normal years. Demand for oil products fell sharply since consumers cut back on purchases due to soaring pump prices and the economic recession. We expect the demand for oil products to continue to shrink in the future due to structural factors such as an energy-saving mindset among consumers as well as fuel changes and greater fuel efficiency among industrial users.

Meanwhile, the Japanese oil market is still the third largest in the world, and remains an attractive market characterized by excellent customers who have financial capacity.

2008 in Review

In this challenging business environment of soaring crude oil prices, declining demand, and rapidly fluctuating product prices, we continued to pursue the same basic strategy as the previous financial year, under which we sought to broaden the customer base and increase sales per customer. Specifically, we are expanding our network of service stations that are in conjunction with convenience stores and shopping centers. Furthermore, to boost sales efficiency we continued converting existing full-service stations into self-service stations in major-consumption areas, increasing the proportion of self-service stations to 19.8% as of the end of the financial year. Particularly in the Tokyo metropolitan area, the ratio of self-service stations is far higher than the industry average. Turning to industrial fuel sales, we are strengthening our solutions-driven sales effort, with a

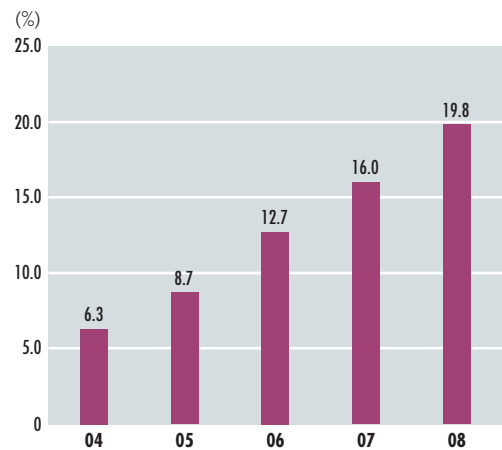
particular focus on the best mix of energy sources, and offering high value-added lubricants and bitumen as well as LNG, which has less impact on the environment.

Upcoming Strategies

In retail sales, we will strive to further expand our customer base, even in this environment of decreasing demand, by paying detailed attention to the needs of our many and diverse customers. We will also work to enhance per-store sales efficiency by consolidating and converting service stations. In industrial fuel sales, we will seize the transition to a low-carbon society as a business opportunity, strengthening our sales efforts for high value-added products that can be expected to contribute to the environment and energy efficiency.

These initiatives will be built on human resources within and without the Company. We therefore regard human resources development as a crucial strategy in our effort for sustainable growth along with our dealers.

Self-Service Station Ratio





Katsuhiro Nakagawa

EXECUTIVE OFFICER
Home Solution and
New Business Promotion

LPG (Liquid Petroleum Gas)

Business Environment

In our LPG business, we sell LPG through our dealers to customers across Japan. The gas is refined and produced at Showa Shell Group refineries or imported—mainly from the Middle East. The products we handle are Clean Propane for households and stores, Clean Auto for automotive applications, and Clean Butane and Clean Mixed for industrial applications.

In 2008, import prices for LPG were pushed sharply higher by escalating crude oil prices, making our business environment very difficult. Competition with city gas suppliers and electric companies' aggressive promotion of a shift to "all electric" both intensified, causing the scale of Japan's LPG market to contract during the year. In an attempt to retain a competitive advantage in this environment, companies in the LPG industry are now competing fiercely with each other, aiming to improve earnings by expanding business scale through mergers and integration.

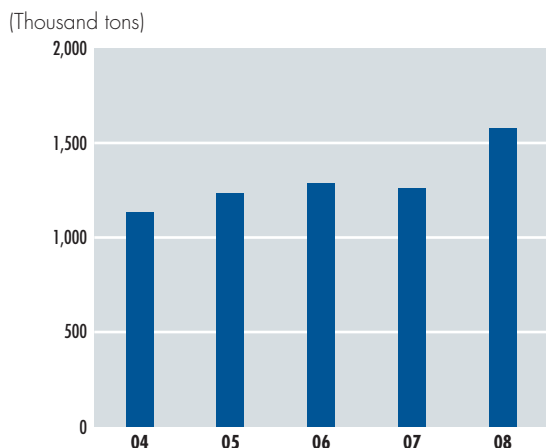
2008 in Review

As part of the LPG business integration with Sumitomo Corporation launched in April 2008, Enessance Holdings Co., Ltd. was established as a holding company to oversee the sales subsidiaries of both parent companies. Operations at the new holding company commenced in July 2008. The LPG business integration and supply of LPG to Enessance Holdings caused our LPG sales volume in financial year 2008 to rise about 300,000 tons over the previous financial year; it also strengthened Showa Shell's earnings base and significantly contributed to cost reduction.

Elsewhere, we took steps to upgrade our new "Home Security" service for end users and launched a network camera service, both of which have been well received by customers.

Furthermore, we have bolstered the competitiveness of our dealers by holding a variety of training seminars pertaining to management of health, safety, security, and the environment (HSSE) and government policies for strengthening consumer safeguards, as well as disseminating real-time data on overseas markets.

Sales Volume Trends



Upcoming Strategies

LPG business holds enormous potential for developing peripheral household business beyond LPG itself, since products are delivered to ordinary households. By fully utilizing the customer networks of our dealers, including Enessance Holdings, we can propose to customers next-generation CIS solar powered cells to meet their growing environmental needs, as well as network cameras, housekeeping, and other household-related ventures to meet the needs of modern life. In these ways, we will move to strengthen both our earnings capabilities and our customer base.



Yukimichi Ikemura

SENIOR EXECUTIVE OFFICER
Lubricants & Bitumen,
International Sales,
and Laboratory

Special Products

Business Environment

Among our special products, demand for lubricants and grease declined, particularly factory fill oil fell substantially. This decline tracked production decrease in manufacturing sectors as the economy slowed from the fall of 2008. Bitumen saw a similar downturn, reflecting decreased order volume for construction projects due to lower or postponed investment in public projects, as well as retreating private-sector demand caused by the economic slowdown. We estimate a difficult year in 2009 also, due to economic stagnation.

The sales environment for fuel and lubricants for jets is witnessing two opposing demand trends. On the one hand, demand is declining on lower consumption in step with growing adoption by airlines of more energy efficient aircraft, as well as the consolidation and elimination of certain flight routes. On the other hand, demand is expected to increase with the opening of a fourth runway at Japan's Haneda Airport, planned for the fall of 2010.

In the sales environment of fuel and lubricants for ships, we will likely see a decrease in consumption volume, reflecting lower freight demand due to the global economic recession that has emerged since the fall of 2008.

2008 in Review

Sales volumes for lubricants and grease (most notably for industrial sectors), and also for bitumen, fell for the year on diminished demand. In terms of earnings, while the environment was severe in the first half of the year due to a delay in reflecting higher crude oil costs in sales prices, earnings improved as this situation was changed toward the end of the year.

In sales of fuel and lubricants for jets and ships, we focused on reaping profits from sales during the rapid rise in crude oil and oil product prices until summer.

Upcoming Strategies

In lubricants, we have both an extensive lineup and sophisticated, distinctive products developed by Showa Shell and the Shell Group. These advantages enable Showa Shell to offer products with outstanding performance that meet the individual needs of our customers. Examples of such offerings are *Shell Tellus Oil SX-Z*, a hydraulic oil that enhances energy efficiency at plants and contributes to improved environmental performance, and *Shell Rimula Signia*, a diesel engine lubricant that has dramatically lengthened the intervals between oil changes in trucks, thus helping to reduce operating costs. In this way, we are working to increase earnings by further expanding the sale of high value-added products that assist customers in reducing costs and meeting their environmental requirement.

Similarly for bitumen, we are boosting earnings power with high value-added products that address environmental concerns. Most notable here is *New Mellowphalt*, a light colored bitumen product that keeps paved surface 20°C at maximum cooler than ordinary bitumen pavement, as well as harmonizing with surrounding scenery.



New Mellowphalt, a bitumen paving material that is attracting interest not only for harmonizing with surrounding scenery, but also as a countermeasure for urban heat islands.
(Photo: Yoshinogari Historical Park)



Misao Hamamoto

EXECUTIVE OFFICER
Manufacturing



Manufacturing

Business Environment

Showa Shell refines petroleum at the Yokkaichi Refinery operated by Showa Yokkaichi Sekiyu Co., Ltd., the Keihin Refinery operated by Toa Oil Co., Ltd., and the Yamaguchi Refinery operated by Seibu Oil Co., Ltd.

In recent years, a structural decline in the demand for oil products has caused an excess of oil refining capacity in Japan. Particularly in 2008 there was a heightened sense of refining overcapacity with the added effects of the economic recession and the decline in consumption caused by soaring oil product prices.

While domestic demand for oil products is expected to decline, overseas demand, especially in other Asian countries, is expected to rebound. The supply of oil products is expected to increase due to new large refineries starting up in India and other Asian countries. With demand decreasing and the market becoming more globalized even as competition grows more intense, efficient refining and supply that reflects both demand and the market situation will become increasingly important. In the future, only the refineries that have the competitive strength to respond to these changes will be able to survive.

2008 in Review

The Group utilized sophisticated cracking equipment at its refineries to produce clean oil with high demand. The Manufacturing Division's mission is to draw maximum capacity from these facilities, operating them in a stable and efficient manner to manufacture high added-value products.

In 2008 the Group implemented policies for continuing the stable and efficient operation of its refineries to maximize earnings. We continued efforts to improve the reliability of facilities that we have been enhancing since 2007 and to operate the refineries in an even more stable and safe manner.

We also invested in expanding and improving our loading facilities to allow expansion of product exports.

Upcoming Strategies

As the oil product market becomes increasingly globalized, the Showa Shell Sekiyu Group aims to be among the leaders in the Asian market. To accomplish this, we are examining the expansion and improvement of facilities that can efficiently manufacture high value-added products at a low cost in addition to taking advantage of the Shell Group's technology and expertise to even more effectively utilize our existing highly efficient refining facilities.

We will continue to implement our program to improve the reliability of our refineries and take steps to consume less energy. We will also continue to operate our facilities in a stable and efficient manner, and work to fulfill our responsibility to provide a stable supply of oil products.



The Yokkaichi Refinery's residue fluid catalytic cracker (RFCC) produces high value-added products from heavy oil.



Kazunori Yamamoto

CORPORATE EXECUTIVE OFFICER
Supply, Oil Products,
and Crude Oil & Marine

Exports and Petrochemicals (Feedstocks)

Business Environment

Showa Shell exports oil products to meet domestic and overseas demand. The market remained firm during the first half of 2008 thanks to active demand in countries such as China, but slumped in the second half of the year due to the global economic downturn.

The Company also produces and sells mixed xylene, benzene and propylene, which are petrochemical feedstocks, as complementary products from petroleum refining. In 2008, the demand for petrochemical products declined due to the global economic downturn, especially in the second half of the year, and the market fell into a slump.

Recovery of the global economy does not appear imminent, but in the medium- to long-term the demand for diesel oil and other middle distillates, and petrochemical products, is expected to grow, especially in China and other Asian countries. On the other hand, since new refineries are under construction, especially in India and China, competition is also expected to intensify.

2008 in Review

By utilizing Shell's global trading network, one of the world's biggest traders, to export flexibly and efficiently, we were able to expand our exports of oil products, mainly diesel oil. Furthermore, we doubled our export capacity by expanding and improving export facilities such as tanks and wharves to prepare for greater export opportunities.

In the area of petrochemical feedstocks, we established TS Aromatics Limited, a joint venture with Teijin Fibers Limited and Mitsubishi Corporation, in April 2008. TS Aromatics uses mixed xylene supplied by Showa Shell as a raw material to produce and sell paraxylene. Along with ensuring a steady buyer for our mixed xylene, the joint venture allows us to move into the paraxylene business.

Upcoming Strategies

Exports play an important role in calculating demand within Japan and maintaining an efficient level of refinery output in an environment where domestic demand for oil products is declining. We therefore intend to continue to make full use of our well-developed export facilities and the Shell Group's superior global trading network to export products in an agile and efficient way, keeping a close eye on domestic and overseas demand.

In petrochemical feedstocks, we are installing continuous catalyst regeneration reformers (CCR) at Seibu Oil with the aim of starting up production in 2009. This will allow us to increase output of mixed xylene and respond to demand expansion over the medium- to long-term, increasing opportunities to generate earnings. We will closely monitor demand and market conditions for oil products overall, and strive for the best balance between mixed xylene and fuel oil, controlling production to maximize profits.

Export framework through the Shell Group's global trading network



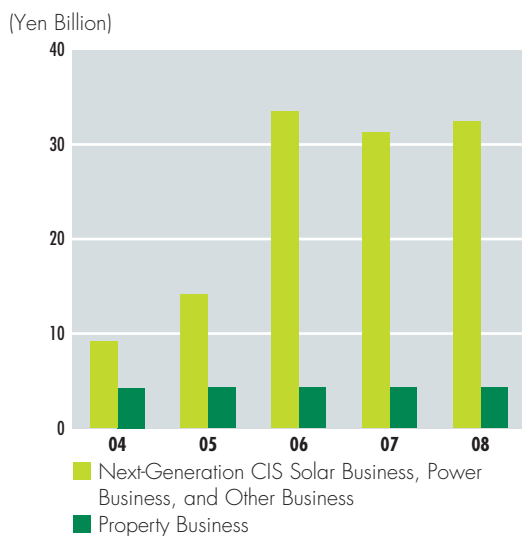
Non-oil Business

In its non-oil business, Showa Shell is involved in operations that include next-generation CIS solar business, power business, city gas business and property business.

Of these businesses, we are quickly developing next-generation CIS solar business as a core operation. Accordingly, along with steady commercial production at consolidated subsidiary Showa Shell Solar Co., Ltd.'s Miyazaki Plant 1, construction of Miyazaki Plant 2 was completed in April 2009. In step with our goal of becoming a global player by expanding business scale at an early stage, we finished construction of the Atsugi Research Center to strengthen technology development and we are also conducting joint research relating to mass production technology.

In our power business, we are proceeding with preparations for our Ohgishima Power Station to start operations in 2010.

Net sales



Business Results in 2008

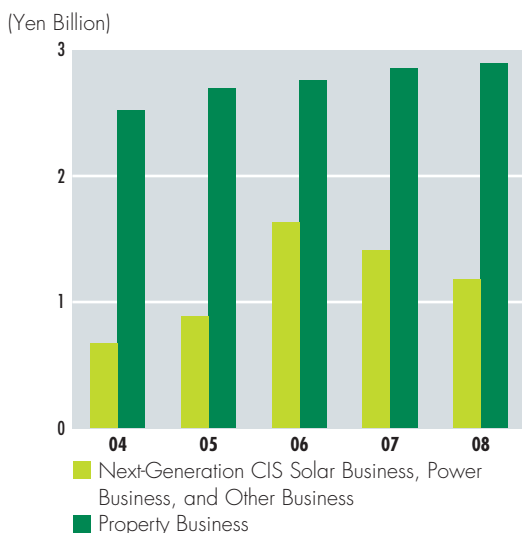
Our non-oil business sales of next-generation CIS solar business, power business, and other business amounted 32.4 billion yen (an increase of 3.6% versus a year ago). The company posted operating income of 1.1 billion yen (a decrease of 0.2 billion yen versus a year ago).

As for the property business, vacancies in our commercial buildings, reflecting weak office demand impacted by the slowing economy, were mainly compensated by the reduction in administrative costs and resulted in sales of 4.2 billion yen (an increase of 0.4% versus a year ago) and operating income of 2.8 billion yen, unchanged from the previous financial year.

Upcoming Strategies

To support development in next-generation CIS solar business going forward, we will bolster technology development and establish sales frameworks in Japan and overseas. In power business, we intend to set up a business structure around Ohgishima Power Station, a large-scale, natural gas-fired power plant operated through a joint venture with Tokyo Gas Co., Ltd. As we develop each business, we plan to pursue synergies by effectively utilizing the assets and sales network from our oil business, and to prepare systems for offering diverse energy menus as energy solutions in order to maintain and expand our customer base.

Operating Income





Shigeaki Kameda

SENIOR EXECUTIVE OFFICER
Solar Business Center,
President and Representative
Director of Showa Shell Solar K.K.

Next-Generation CIS Solar Business

Business Environment

Showa Shell Solar K.K., our consolidated subsidiary, produces and sells next-generation CIS solar powered cells. These cells are a thin-film solar cell composed of three principle elements: copper, indium, and selenium.

The solar industry in 2008 continued to see its products gain ground, most notably in Europe. In Japan, meanwhile, the Hokkaido Toyako Summit provided a chance for the government to unveil its own vision for strengthening the solar power industry in the push to realize a low carbon society. At the beginning of 2009, expectations for industry growth rose significantly as Obama administration in the U.S. launched its "Green New Deal" with the intention of generating new demand and employment opportunities in the environmental sector.

In the solar powered cell market, Germany has achieved the largest market since 2005 with the introduction of a feed-in tariff system in 2004. However, Japan is also steadily adopting various initiatives, including the revival of a subsidy system for the installation of such systems. Through this measure, as well as government targets designed to increase uptake compared to the 2005 level by twenty-fold and forty-fold by 2020 and 2030, respectively, the spread of solar powered cells is expected to gain momentum rapidly in Japan.

In terms of supply, the share of the market currently claimed by thin-film solar powered cells is small compared to the 80 to 90% accounted for by major producers of crystalline silicon cells. Nevertheless, this modest share is likely to gradually expand as stable raw material procurement and cost competitiveness propel mass production of thin-film cells from 2009 to 2010. In addition to manufacturers from Japan and Europe, new entrants from the United States, Asia and elsewhere are rapidly expanding their business.

2008 in Review

Miyazaki Plant 1

In 2007, we initiated commercial production at our Miyazaki Plant 1 with an annual production scale of 20 megawatts (MW) worth of next-generation CIS solar powered cells. Our efforts to steadily resolve complicated issues regarding production equipments have resulted in uninterrupted and stable production.

In addition to establishing production technology for the Miyazaki Plant 1 and amassing technology for commercial plant operations, we trained our human resources up to the levels required. In doing so, we completed the preparations required for Miyazaki Plant 2 and for future expansion of the business.

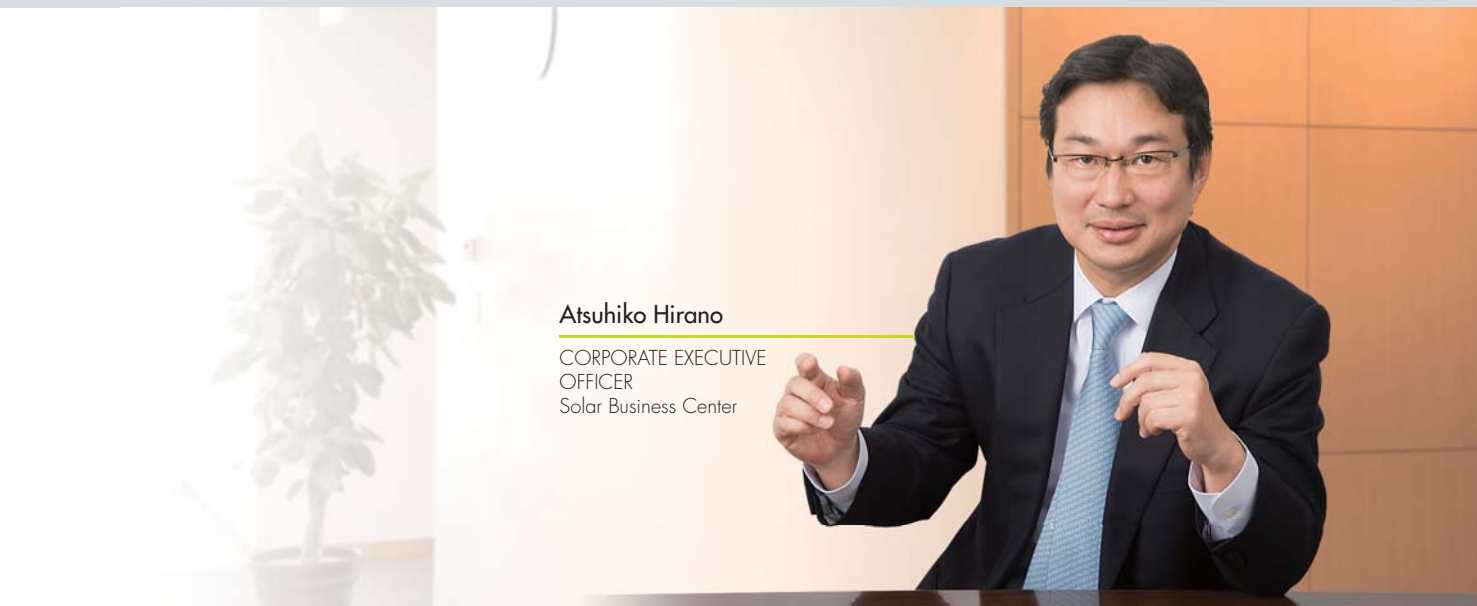
The majority of our sales of solar powered cell modules are exports, mainly to Europe, and customers have given us exceptionally high marks with respect to quality.

Miyazaki Plant 2

Construction progressed according to plan on the Miyazaki Plant 2, which was completed in April 2009. The plant has an annual production scale of 60MW worth of next-generation CIS solar powered cells.



Miyazaki Plant 2



Atsuhiko Hirano

CORPORATE EXECUTIVE OFFICER
Solar Business Center

Atsugi Research Center and Decision to Pursue Joint Development

In July 2008, we decided to construct the Atsugi Research Center to enhance technology development in CIS solar powered cells. At the same time, the Company began joint research on mass production technology with Ulvac, Inc.

Completed in March 2009, this center has begun its research in the pursuit of technology innovation. In our joint research work, we will combine the proprietary next-generation CIS solar powered cell production technology pioneered by Showa Shell with vacuum component technology refined by Ulvac, with the goal of developing manufacturing equipment with even higher production capacity and greater cost competitiveness.

Upcoming Strategies

The solar power industry is global, meaning that we must increase both its cost competitiveness and business scale in the global market to groom solar business into a highly

profitable business. We will focus on establishing a framework for scale expansion of this business going forward.

Since next-generation CIS solar powered cells require comparatively fewer raw materials, and have a relatively simple structure and manufacturing process, we expect these advantages to provide possibilities of cost reductions. To reduce initial investment and further enhance cost competitiveness, we are taking steps to improve production processes and the productivity of all equipment, and moving forward with technology innovation that will boost conversion efficiency and long-term product reliability.

Furthermore, in line with supply volume expansion, we will bolster our business organization to expand both our sales areas and our network of business partners. We will also build an efficient network for sales and installation, while moving to broaden our support framework.

Product Superiority of Showa Shell Solar's "solacis"

Power generation layer

Thickness of approximately 2 to 3 micrometers, roughly 1/100th that of conventional crystalline silicon cells

Raw materials

Power generation layer is thin and requires minimal materials

EPT (Energy Payback Time)*

Roughly half that of conventional crystalline silicon cells due to fewer manufacturing processes, and less raw materials and energy required for manufacturing

Effect of Shadows

Overall module power generation is not cut off even if a portion of the module is in shadow; sections receiving light can continue to generate power

Conversion Efficiency

Cells meet the world's highest standard for thin-film systems at the product level. Furthermore, the device itself has great potential for further advancement

*Period required for the recovery of energy consumed during manufacture through power generation

- In February 2008 our next-generation CIS solar powered cells were awarded the Minister of Economy, Trade and Industry Prize, the highest award presented at the 12th New Energy Awards sponsored by the New Energy Foundation. Our next-generation CIS solar powered cells were highly rated for their future viability, especially their innovative production technology, potential to scale up in performance, anticipated cost savings with mass production, and superior design.
- In 2007, "solacis" was honored with a Prize for Excellence (Manufacturing and Technology Development Category) at the second Monozukuri Nippon Grand Awards held by the Japanese Ministry of Economy, Trade and Industry. "solacis" also received the Ecology Design Prize at the Good Design Awards 2007 sponsored by the Japan Industrial Design Promotion Organization (JIDPO).



Hiroto Tamai

CORPORATE EXECUTIVE OFFICER
Corporate Planning, Secretariat,
and Power Business

Power Business

Business Environment

At the core of our power business is the Ohgishima Power Project. Launched in cooperation with Tokyo Gas Co., Ltd. in 2003, the aim of the project is to build and operate an LNG (liquefied natural gas) power plant, thereby leveraging power generation know-how in a refinery setting and taking advantage of unoperated assets.

Although electricity demand in Japan temporarily declined in the second half of 2008 due to the economic downturn, demand until that time had grown steadily on social trends such as the uptake of IT and increasing desire to reduce emissions of CO₂. These trends are expected to remain for the medium- to long-term.

At the same time, deregulation has opened the door for new operators to sell electricity since 2000, and high-voltage power users requiring 50kW and above are now allowed to buy electricity from the new operators, known as power producer and suppliers (PPS).

2008 in Review

In the Ohgishima Power Project, construction (started in October 2007) continued on the Ohgishima Power Station, an LNG power plant located in Yokohama's Tsurumi Ward.

Meanwhile, in advance of completing construction on the Ohgishima Power Station, in October 2007 we became a registered member of the Japan Electric Power Exchange and in January 2008 we were registered as a power producer and supplier, and started our electricity wholesaling business, followed by our retailing business to enter the power business.

Upcoming Strategies

The Ohgishima Power Station is planned to start operation in March 2010. In line with this, we will increase the scale of our sales, mainly in the Tokyo metropolitan area.

The power supplied by Ohgishima Power Station will also have environmental benefits since the station will use LNG, the cleanest fossil fuel, and the plant will use cutting-edge gas turbine combined cycle* technology that efficiently generates electricity.

Going forward, Showa Shell will build a business model centered on the power generated by Ohgishima Power Station, for supplying more customers with electricity as a high-quality source of energy.

*Gas turbine combined cycle: an extremely efficient electricity generation system in which electricity is first generated from a gas turbine, the exhaust heat from which is then used in a steam turbine to generate electricity again.



The Ohgishima Power Station under construction