

Showa Shell Sekiyu K.K.

Showa Shell Sekiyu Annual Report 2008



Annual Report

Conquer the Change, Pioneer the Future



PROFILE

Showa Shell Sekiyu K.K. was founded in 1985 from the merger of Showa Oil Co., Ltd. and Shell Sekiyu K.K. While supplying energy safely and stably, we are dedicated to mitigating environmental impact and to the development of new types of energy and environmentally friendly products. Along with top-class industry competitiveness in our main businesses of oil business and next-generation CIS (copper, indium, selenium) solar business, Showa Shell is striving to further enhance its corporate value by building a strong management base and sound corporate constitution.

MANAGEMENT PHILOSOPHY

Showa Shell Sekiyu K.K. can only achieve a further leap and perpetual growth by constantly making its contribution to society, while securing reasonable profits and constructing a strong management base and sound corporate constitution. With this in mind, we set our corporate creed as follows:

1. We will always endeavor for a break-through or technological innovation with a spirit of customer first and for continual growth of the company, discharging our social responsibilities including environmental preservation, a stable supply of energy and operation safety.
2. We will implement Japanese-style management adaptable to changes at our own discretion and on our own responsibility, while maintaining close relationships with Shell group companies and cultivating our international business sense.
3. We will aim to achieve our corporate goals and form a group of positive people full of vitality associated with each other through a noble ideal and trust.
4. We will endeavor to improve productivity through an effort calling for everybody's participation for thinking and sweating together and construct an affluent future on the base of the company's unshakable footing.



CAUTION REGARDING BUSINESS FORECASTS AND FORWARD-LOOKING STATEMENTS

Business forecasts and other forward-looking statements regarding Showa Shell found in this annual report reflect the management's assessment based on data available to it at the time that such were compiled. Readers are cautioned that actual business results may differ materially from these statements due to changes in exchange rates, market trends, economic conditions, and other factors.



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SHOWA SHELL CORE BUSINESS AREAS

Oil Business

Showa Shell imports and refines crude oil, and sells oil products. We aim to enhance our ability to generate earnings by leveraging the competitive strength of our oil refineries, which are able to respond to the dramatic changes in domestic and international markets, as well as marketing strategies that meet changing customer needs.



At our Keihin Refinery, Yokkaichi Refinery, and Yamaguchi Refinery we have the combined capacity to process 515,000 barrels of oil a day. While operating our refineries in a safe and stable manner, we are producing efficiently by taking full advantage of our developed heavy oil cracking equipment. Going forward we will continue our stable operations while we examine to reinforce the competitiveness of our refining facilities.

> P.17



There were 4,305 service stations affiliated with Showa Shell Sekiyu as of 31 December 2008. We are continuing to develop highly competitive service stations that meet the needs of our customers and continuing the conversion to self-service stations. We are also working to expand and improve the quality of our sales network by developing service stations in conjunction with shopping centers and convenience stores.

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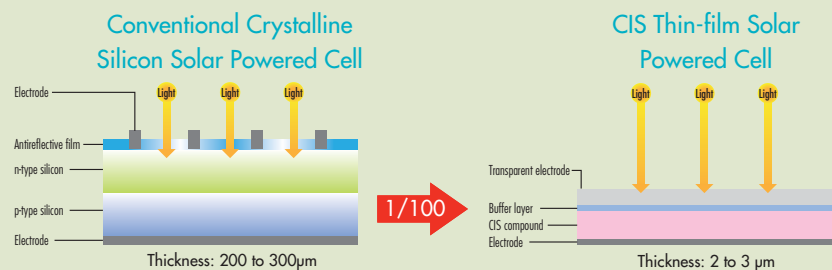


Next-Generation CIS Solar Business

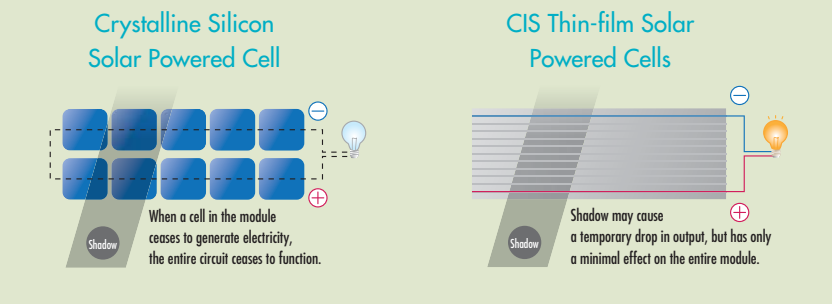
Showa Shell began conducting research on solar cells in 1978 and we initiated our current research on CIS solar powered cells in 1993 under commission from the New Energy and Industrial Technology Development Organization (NEDO). We launched commercial production in 2007 and aim to grow this business area as one of our core businesses while improving the competitiveness.



◆ Thinness of power generating layer



◆ Operates even when partially shaded



Showa Shell Solar K.K.'s "solacis" product has many advantages over other solar cells: Its power generating layers are thin, it has the world's highest conversion efficiency for a thin-film solar cell, requires smaller amounts of raw materials and energy to produce, is less affected by shade, and lends itself to design. The superiority of solacis has been recognized in a number of awards, including a Prize of Excellence in the second Monozukuri Nippon Grand Awards, an Ecology Design Prize in the Good Design Awards 2007, and in 2008 the product received the Minister of Economy, Trade and Industry Prize, the top prize in the 12th New Energy Awards.

> P.20

Awards for "solacis"



新エネ大賞
 経済産業大臣賞



CIS太陽電池「solacis」



SHOWA SHELL—THE YEAR IN REVIEW

Next-Generation “solacis” CIS Solar Powered Cells Honored at 2007 (12th) New Energy Awards (Minister of Economy, Trade and Industry Prize)

In addition to the significant reduction in the burden on the environment our solar-powered products will achieve, we also received recognition for the future potential in terms of innovation in production technology, potential to improve performance, and the prospects for cost reducing through mass production, and for the superior product design.



Establishment of Paraxylene Joint Venture TS Aromatics Ltd.

This joint venture for the manufacture and sale of paraxylene was established in cooperation with Teijin Fiber Co., Ltd. and Mitsubishi Corporation. With this step, Showa Shell has secured a stable buyer of mixed xylene and advanced into the paraxylene sector.

Expansion of Biofuel Sales Area

In April 2007 we joined a project to prove the feasibility of distribution of biogasoline blended with the additive ethyl tertiary butyl ether (ETBE) beginning with seven service stations in the Tokyo Metropolitan area. From May to June 2008 we added a further nine service stations in Tokyo Metropolitan and the Tohoku region, bringing the total to 16 stations.

Establishment of Enessance Holdings Co., Ltd.

As a key step in the integration of our liquefied petroleum gas (LPG) operations with those of Sumitomo Corporation, we jointly established by merger a holding company that controls the relevant sales companies.

Announcement of Installation of Quick-Recharge Equipment for Electric Vehicles (EVs) at Service Stations

To support initiatives by Kanagawa Prefecture aimed at establishing recharging infrastructure and promoting EV uptake, we decided to be the first in Japan to install a quick-recharge equipment at service station. (In March 2009, a quick-recharge station was installed at a service station in Kanagawa Prefecture’s Fujisawa City.)

2008

January

First Open Symposium Energy Sustainability Forum “The Challenge of Energy Sustainability” Held

In conjunction with the University of Tokyo-Integrated Research System for Sustainability Science (IR3S), we sponsored a forum with discussion centered on technological aspects of energy supply systems for the 21st century, as part of our efforts to explore energy sustainability through industry-university collaboration.

February

March

Road Tests of Company-Owned Buses Using GTL Fuel

Road trials of buses using GTL (Gas to Liquids) fuel were conducted for a year beginning April 2008, to provide proof that such fuels can reliably perform under hot weather and other environmental conditions.

April

May



June

July

Establishment of Atsugi Research Center for Next-Generation CIS Solar Powered Cells and Collaborative Development of Mass Production Technology Announced

To enhance technology development, we decided to establish the Atsugi Research Center and to conduct collaborative research with Ulvac, Inc. to improve the productivity of manufacturing equipment ahead of the start of mass production.

August

September

Second Open Symposium Energy Sustainability Forum “The Challenge for Energy Sustainability—Demand for Sustainable Energy and Changing Lifestyles” Held

With a focus on energy demand in a sustainable and prosperous society, discussion in this forum explored technological innovations and socioeconomic systems, institutions and policies that contribute to the development of a sustainable society.

October

November

Appointment of President and Representative Director Arai

After serving as acting President and Representative Director since August 2008, Mr. Jun Arai was formally appointed President and Representative Director of Showa Shell Sekiyu K.K. on November 5.

December

2009

March

Appointment of Chairman and Representative Director Kato

On March 27, 2009 at the 97th General Shareholders’ Meeting and a meeting of the Board of Directors, the Chairman and Representative Director was appointed and a new management structure was launched.

April

Construction of Miyazaki Plant 2 for Next-Generation CIS Solar Powered Cells

Final construction on a Miyazaki Plant 2 for the production of CIS solar powered cells was completed in April 2009. The plant is set to produce the equivalent of 60MW of cells annually, and will expand Showa Shell’s presence in the solar powered cells industry.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Years ended 31 December

	Yen Million	Percent change (%)	Yen Million
	2008	2008/2007	2007
For the year:			
Net sales	¥3,272,801	6.2%	¥3,082,641
Operating income (loss)	(12,283)	—	88,813
Ordinary income (loss)	(10,065)	—	92,709
CCS ordinary income* ¹	45,697	3.2	44,271
Net income (loss) after taxes	(16,221)	—	43,729
At year end:			
Total shareholders' equity* ²	306,813	(9.5)	338,933
Total assets	1,209,956	(9.6)	1,339,114
Interest-bearing debt (excluding cash and deposits)	206,363	23.8	166,655
Per share data:			
Net income (loss) after taxes per share	¥ (43.07)	¥(159.19)	¥116.12
Cash dividends	36.00	0.00	36.00
Total shareholders' equity per share	814.63	(85.27)	899.90
Ratios:			
Return on equity (ROE)* ³	—	—	13.5%
Return on average capital employed (ROACE)* ⁴	—	—	8.8
Gearing ratio* ⁵	40.2%	7.2 Point	33.0

*¹ CCS ordinary income (ordinary income on Current Cost of Supply basis); ordinary income based on costs excluding inventory valuation effect

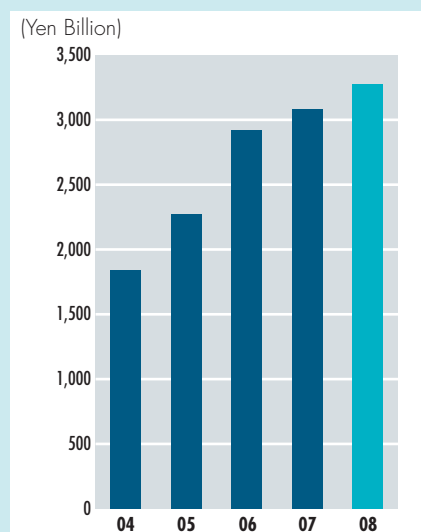
*² Total shareholders' equity=Net assets-Minority interests

*³ ROE=Net income after tax/Average total shareholders' equity

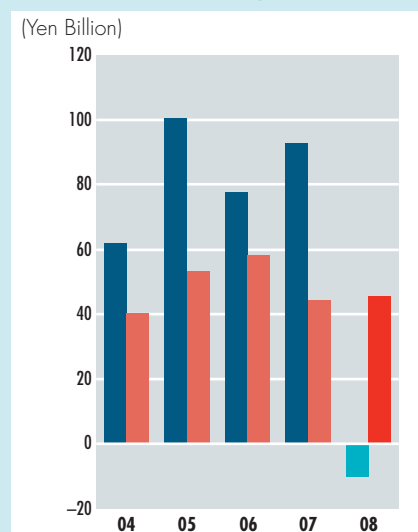
*⁴ ROACE=Net income before interest paid (after interest received) after tax/Average capital employed

*⁵ Gearing ratio=(Total debts-cash and deposits)/(Capital employed-cash and deposits)

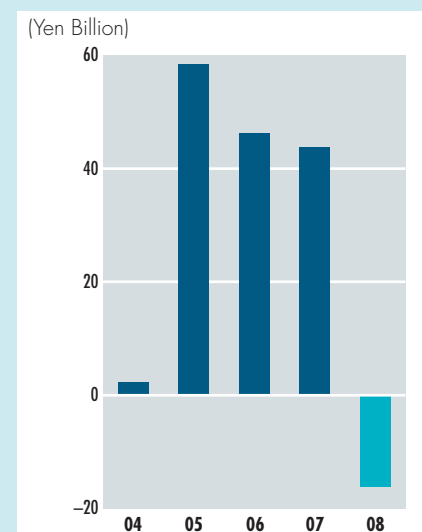
Consolidated Net Sales



Consolidated Ordinary Income (loss)



Consolidated Net Income (loss) after Taxes



■ CCS basis

MESSAGE FROM THE CHAIRMAN



Shigeya Kato
Chairman and Representative Director

A handwritten signature in black ink, appearing to read 'S. Kato', written in a cursive style.

We are facing a period of unprecedented change. The financial crisis in the U.S. triggered by the sub-prime loan problem has resulted in a dramatic slow-down for globalized economy and industry. The price of crude oil, which had risen on an influx of speculative money, also fell considerably from the latter half of last year. Meanwhile, the debate on creating the framework for a low-carbon society continues to intensify, and there are growing calls in Japan for environment-conscious corporate management.

The business climate for the oil industry has also gone through a transformation as a result of these changes. At the present moment, the economic slow-down has led to a temporary falloff in demand for oil, and crude oil prices during the first half of 2009 have also remained low. Over the medium to long term, however, we expect the price of oil to gradually rise and remain high as a result of growing demand stemming from population growth and economic development in emerging countries, along with dwindling supply from easily recoverable reserves and other factors. We consider the main issue facing our company to be the establishing of a management and business structure adaptable to the change in the current business environment and to the future structural changes in the business climate.

The New Foundation business plan launched in 2005 is now in its fourth year. In the oil refining and sales business, an area where we have continued to strive to improve efficiency, implementing strategic measures to respond to the changing business environment has become a particularly pressing issue. In next-generation CIS (copper, indium, selenium) solar business, for which we began commercial production in 2007, we are accelerating our efforts in order to expand the business globally.

The key points for developing these businesses are full transparency, a management structure able to make decisions quickly, and the development of human resources. The new management structure implemented in April clearly separates the responsibilities and authority of the board of directors from that of the operating divisions. The board of directors includes more outside directors in order to establish a highly transparent management structure, while for business operations the executive officer structure has been expanded and enhanced. These changes allow for quick and accurate management decision-making in a rapidly changing business environment.

We have also established several committees to support the operating divisions, such as the Internal Control Promotion Committee, the HSSE (Health,

Safety, Security, and Environment) Committee, and the Internal Audit Committee. Our aim is to strengthen corporate governance by putting in place a highly transparent and trustworthy operating structure.

The Japanese version of SOX (the Financial Instruments and Exchange Law) will be applied to Showa Shell from financial year 2009. Along with the governance structure outlined above, we will also take steps to ensure the accuracy of our financial information.

Lastly, Showa Shell Sekiyu recognizes that compatibility with the global environment is indispensable for achieving sustainable business growth. We will continue to focus on ensuring a stable energy supply, lowering the environmental burden mainly by cutting CO₂ emissions in the supply chain, and developing new types of environment-friendly energy and products centered on our solar business.

Showa Shell Sekiyu, by ensuring business management that is fully conscious of the global environment, and by establishing a structure that allows for a fast and flexible response to changes in the external business climate changes, will maximize its corporate value as it seeks sustainable growth. Thank you for your continued support of the Showa Shell Group.

Medium-Term Business Vision

“EPOCH 2010: Conquer the Change, Pioneer the Future”

Showa Shell is aiming for sustainable growth by responding to a changing business environment and moving quickly to execute strategies.

Q The economic climate as a whole changed tremendously in 2008. What was the year like for Showa Shell Sekiyu's oil business?

A In 2008, we worked hard to cope with the dramatic changes in our business environment. Crude oil price at first climbed relentlessly to a historic high by midyear, only to decline suddenly by the end of the year. The extent to which these massive short-term movements in crude oil prices would be accurately reflected to the market in product costs emerged as the year's biggest issue. In our accounts for financial year 2008, we posted a net loss of 16.2 billion yen. This primarily stemmed from applying the weighted-average method for inventory valuation. Consequently, when crude oil prices suddenly dropped in the second half of the year, our inventory value remained much higher than market prices, which caused the cost of sales to rise. If

we exclude this inventory valuation effect, in other words, if we look only on a Current Cost of Supply (CCS) basis, ordinary income actually rose slightly compared with that of the previous financial year.

Losses also arose from the fact that the rise in crude oil costs could not be fully reflected in sales prices. Nevertheless, we worked to enhance stable operation of our refineries, strengthen retail sales, and boost exports.

Q What is your perception of these market changes?

A There is a structural decline in demand for fuel oil. Fuel consumption is also decreasing, reflecting a move away from cars triggered by high gasoline prices and a growing consciousness among drivers of saving fuel. In Japan, demand from industry is also receding due to weak economic conditions. At the



Jun Arai
President and Representative Director

A stylized, handwritten signature in black ink, likely belonging to Jun Arai.

same time, the shift to natural gas and other types of fuel is gradually gaining ground in step with increased environmental awareness.

In this climate, Japan's oil products market is becoming increasingly globalized. Along with more vigorous product exports, the price differential between domestic and international oil products is becoming narrower.

The changes we see are not temporary. Rather, we recognize that the structural changes in our business environment are actually signs of a paradigm shift. To help Showa Shell respond swiftly to these structural changes, we have formulated a new growth strategy from a medium-term perspective, called "EPOCH 2010: Conquer the Change, Pioneer the Future." "EPOCH 2010" expresses our commitment to conquer the significantly changing epoch (era) by working together with members of the Showa Shell Group including employees, dealers and business partners with a new management team in the pursuit of achieving sustainable development.

Q What can you tell us about medium-term management issues and growth strategies for the oil business?

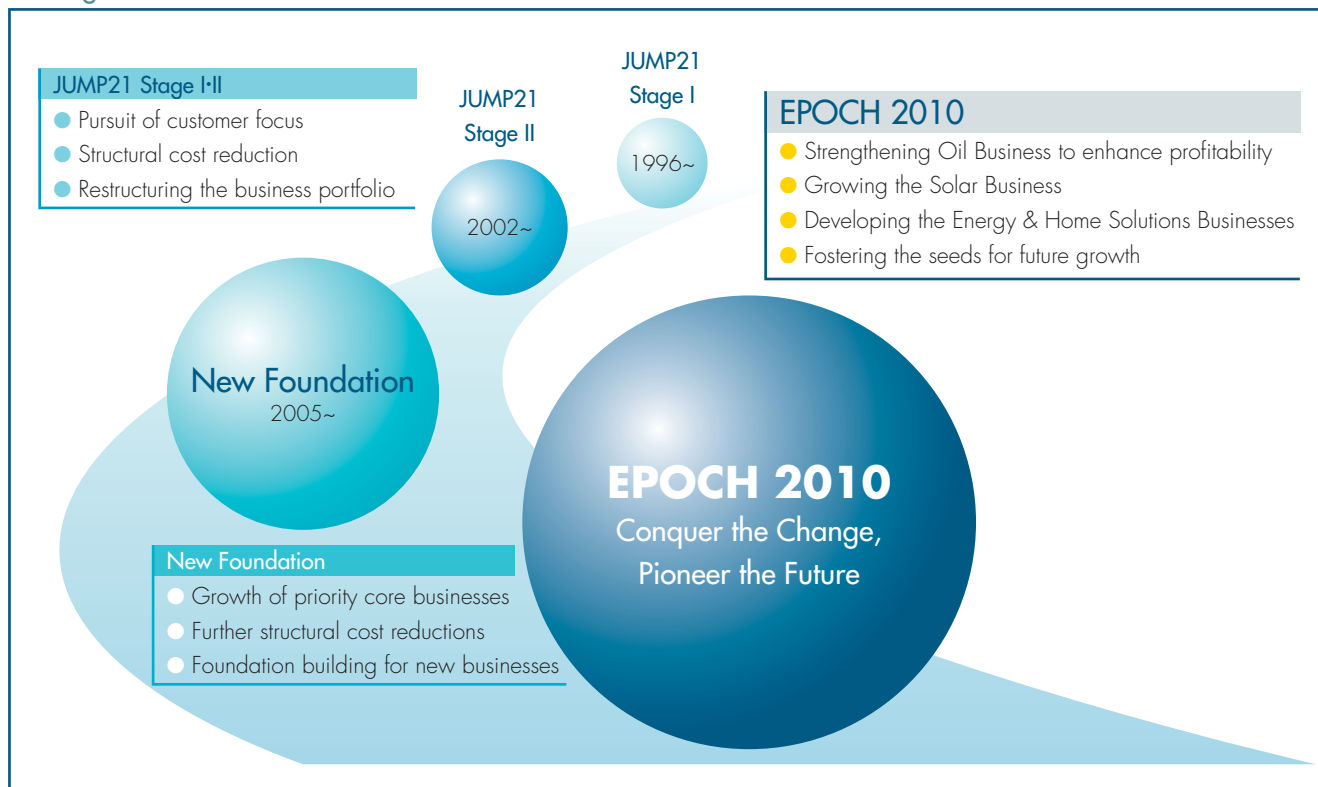
A We will continue to enhance the profitability of this business as a core operation. Measures to expand our customer base will be essential to realize the Company's sustainable growth.

Competitiveness throughout our supply chain from procurement through to sales is vital to maintain and reinforce the profitability of this business. However, given the structural changes in product demand that we currently see, we recognize that the strategic responses in our product supply and sales segment will be more critical than ever before.

> Response in Product Supply Segment

In product supply divisions, key issues to examine going forward are the effective utilization of existing refining facilities, and devising facilities to produce high-value-added products to be refined from low-priced crude oil. Meanwhile, pursuing production that is optimally matched to changing demand means ensuring operational flexibility. We will continue efforts to minimize lost earnings due to equipment trouble and work to enhance energy efficiency.

Aiming for Sustainable Growth



> Response in Sales Segment

In the sales segment to date, we have worked to upgrade and expand our service station network, as we focused on the retail sector based on “Dealerism”—our approach emphasizing our relationship with dealers. However, given declining domestic demand, raising the effectiveness of this network will be more vital now than ever before. While continuing the shift to self-service stations and the development of new service stations, we will also enact structural initiatives that will ultimately improve competitiveness on a per-station basis.

In sales of fuel oil, lubricants and other products for industrial users, we expect structural changes in industry in the coming years to bring changes in the needs of client companies. By supplying products with high added value in terms of environmental performance, energy efficiency and other benefits, we hope to satisfy customers and improve profits. From this standpoint, we will need to strengthen activities in our R&D divisions.

> Response in Product Exports

Product exports will also be indispensable to maintaining efficient refinery operations amid declining domestic demand, and we will export flexibly responding to international markets.

In 2008, we boosted our export facilities to double our export capacity. Moreover, we are gaining access to markets worldwide by utilizing the Shell Group’s global trading network, one of the largest trading networks in the world.

Q Next-generation CIS solar business is gaining a great deal of attention. What is your vision for this business?

A We completed a second plant in Miyazaki Prefecture, built as a follow-up to the stable production framework we established earlier with our first plant in the same prefecture. Also, we have conducted sales of solar modules, mostly in Europe, and they have been very well received. We believe we have succeeded in meeting customer needs by offering products of outstanding quality. In addition to an electric power buyback (feed-in tariff) system largely promoted in Europe, a variety of initiatives are also being formulated here in Japan, including the revival in 2009 of a subsidy scheme for installing solar power generation systems. In parallel, attention is turning to the expansion of future investments and grants for renewable energy in the United States as part of the “Green New Deal” legislation. This trend will likely accelerate efforts to put mechanisms in place for further promoting the spread of solar powered cells in Japan and abroad. A key issue for Showa Shell will be improving cost competitiveness and rapidly expanding business scale at the same time.

> Improving Cost Competitiveness

Next-generation CIS solar powered cells offer cost advantages in manufacturing processes and raw materials. Nevertheless, lowering the production costs per panel through further improvements in cost efficiency and reducing the initial investment required for plant facilities are critical to raising the global market profile of these products. For this reason, in March 2009, we established a research center in Atsugi, Kanagawa Prefecture dedicated to solar powered cells, where we have begun developing technologies for improving cost competitiveness, productivity, and conversion efficiency.



> Business Scale Expansion

Achieving business expansion at an early stage is another issue that must be addressed. We recognize that building a highly competitive supply chain such as early establishment of a mass production framework, achieving optimal market access, and ensuring a good distribution network is a key point in making this business successful.



Given the structural changes in the business environment, how do you intend to allocate management resources?



> Approach to Future Growth Investments

The management team has spent a great deal of time discussing the best method of allocating management resources to achieve sustainable growth. It will still be several years before business scale expansion in next-generation CIS solar business delivers earnings that can be channeled into the next round of investment. Therefore, in the short term, we must work extensively to raise efficiency in our oil business, devising structural reforms to increase profitability even further.

Over the medium- and long-term, our goal is to have a business framework underpinned by both the oil and next-generation CIS solar businesses, with both contributing to earnings. Taking changes in the business environment into account, our policy is to optimally allocate cash flows from both operations in ways that further promote their respective growth.

> Human Resource Allocation

We are enacting a new strategy for human resource allocation. In addition to appropriate allocation in oil operations, we opted in April 2009 to set up a new solar

business center as a more autonomous business entity to accelerate future business development.

> Optimal Asset Utilization

We will re-examine the best approaches for optimally utilizing our assets. In house, we set up a new Real Estate Business Division charged with reviewing real estate utilization company-wide.

For the low carbon society of the future, the products and services offered by Showa Shell will certainly grow more diverse. We are working on elements of the social infrastructure of a low-carbon society, such as our next-generation CIS solar cells, quick-charging equipment for electric vehicles, and stationary fuel cells. Going forward, we will examine specifically how we will combine these developments with Show Shell's assets and in what way we will deliver them to meet the needs of society.

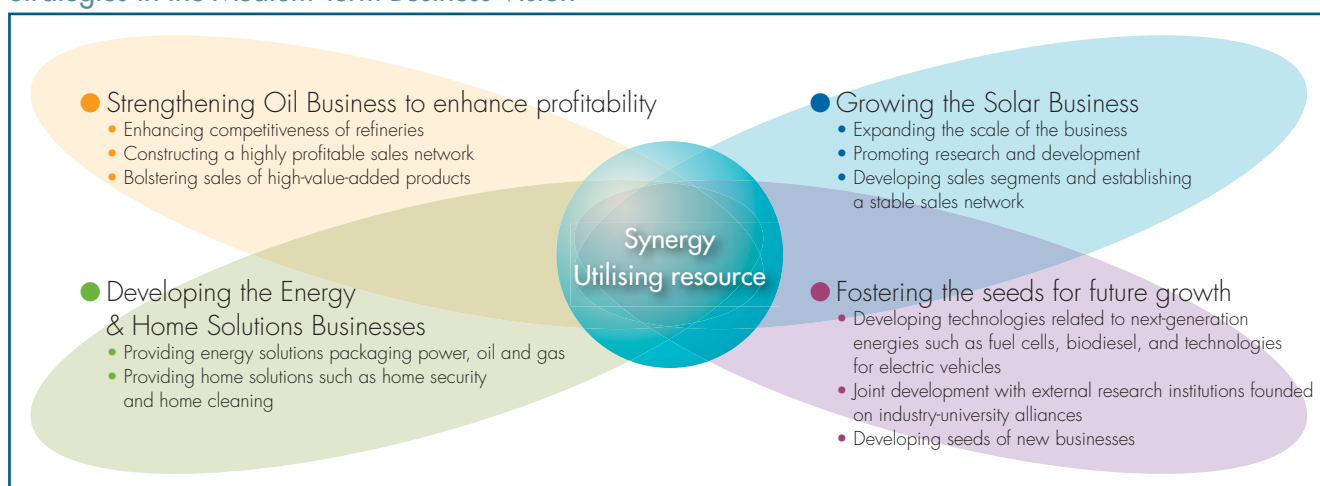


What is your policy on returning profits to shareholders?



By expanding the next-generation CIS solar business, and carrying out aggressive growth investments to sustain and expand the customer base in our oil business, we are aiming for sustainable growth that will maximize our corporate value. We will strive to manage future cash flows from the business so as to maintain payment of a stable dividend at an attractive level to our shareholders, while ensuring we have the funds necessary for investment and strengthening our financial position. The ongoing understanding and support of our shareholders will be vital to this policy going forward.

Strategies in the Medium-Term Business Vision



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

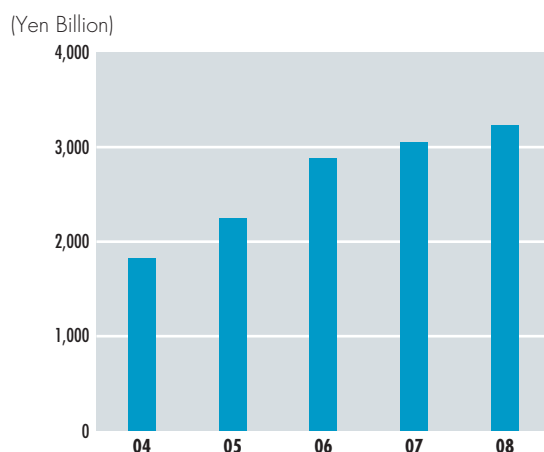
- Retail and wholesale of electric power

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.

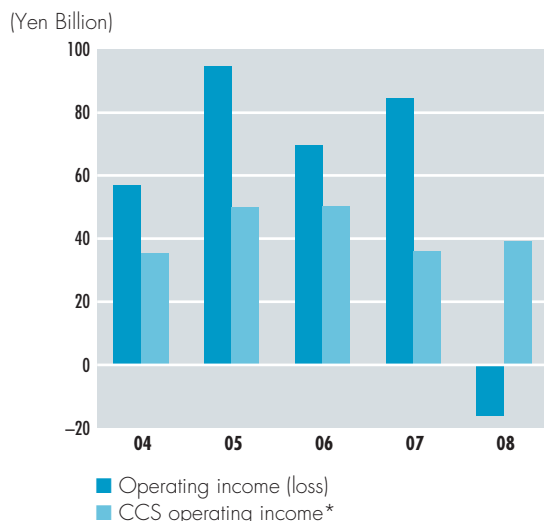
Net sales



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

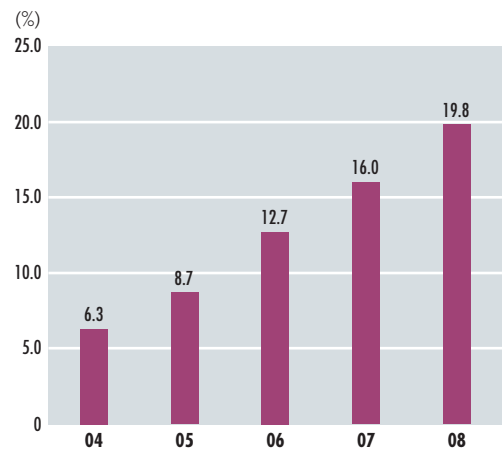
particular focus on the best mix of energy sources, and offering high value-added lubricants and bitumen as well as LNG, which has less impact on the environment.

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.

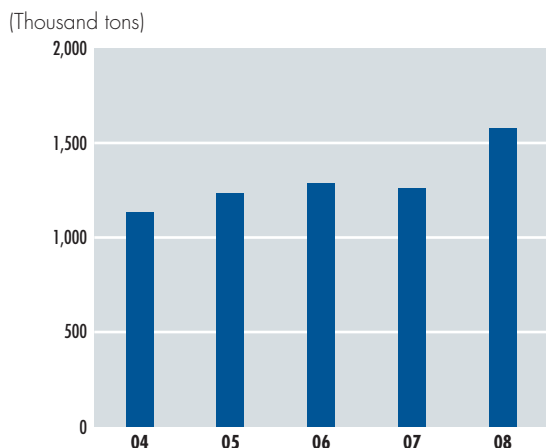
2008 in Review

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

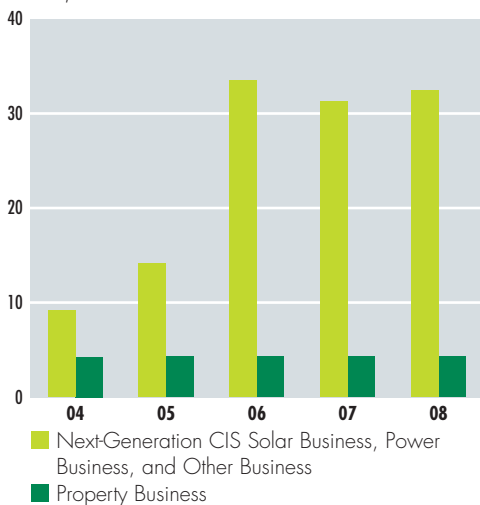
In its non-oil business, Showa Shell is involved in operations that include next-generation CIS solar business, power business, city gas business and property business.

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

(Yen Billion)



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).

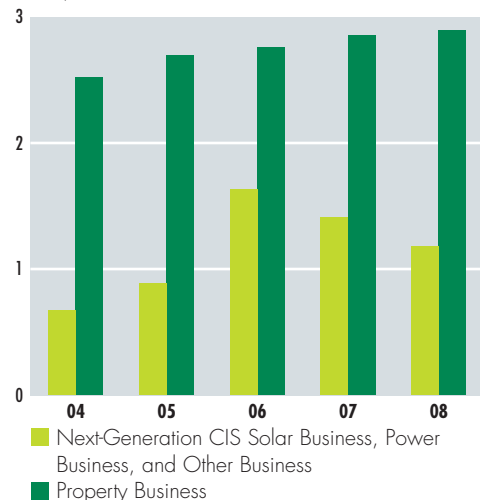
As for the property business, vacancies in our commercial buildings, reflecting weak office demand impacted by the slowing economy, were mainly compensated by the reduction in administrative costs and resulted in sales of 4.2 billion yen (an increase of 0.4% versus a year ago) and operating income of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

(Yen Billion)





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

CORPORATE SECTION

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Tomoaki Itou

EXECUTIVE OFFICER
HSSE, Research & Development,
and Laboratory

In a changing business environment, Showa Shell is seeking sustainable growth as an energy company through an array of R&D activities. Our R&D efforts include the development of high value-added products to comply with customer needs and environmental concerns in mind, as well as technologies for next-generation energy sources and joint development with external research institutions.

R&D Activities

1. Oil-related fields

Showa Shell is engaged in R&D to provide the energy of the future. Alongside sales of *Shell Eco Toyu*, a specialized fuel for oil-based fan heaters made from GTL (Gas to Liquids), a new fuel synthesized from natural gas, we are conducting public road trials of a commuter bus for Company employees that runs on 100% GTL fuel and of similarly fueled city buses operated by the Tokyo Metropolitan Government's Bureau of Transportation. Showa Shell is also taking part in a project for the introduction of biodiesel fuel conducted by the Japan Petroleum Energy Center. Furthermore, steps are underway to commercialize high-quality, high-performance lubricants for automotive and industrial applications, grease and bitumen as part of our ongoing pursuit of environmental and energy-saving performance.

2. Environment-related fields

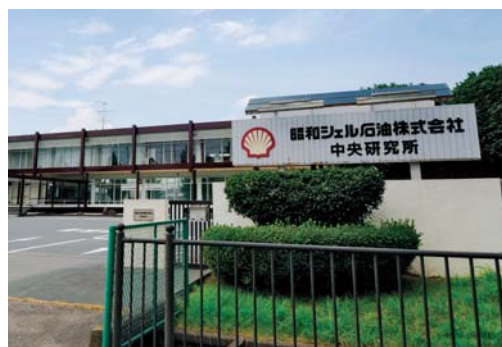
Showa Shell continues to amass technologies and expertise with respect to soil environments by conducting surveys of the soil environment around oil refineries, depots, service stations, and other oil industry facilities, and carrying out research related to technologies for analysis and evaluation and remediation.

3. New technology fields

Showa Shell's participation in the Japan Hydrogen and Fuel Cell Demonstration Project sponsored by the Ministry of Economy, Trade and Industry is not only building our expertise in technologies for supplying hydrogen to fuel cell vehicles, but also in safety management and maintenance of equipment and systems. We are also involved in trial testing of residential fuel cell systems fueled by LPG through participation in a fuel cell demonstration project sponsored by the New Energy and Industrial Technology Development Organization (NEDO).

Cooperative Framework With the Shell Group

Our Central Research Laboratory in Kanagawa Prefecture, is one of the Shell Group's research bases. Here, we engage in research and development, taking advantage of the expertise of the Shell Group's globe-spanning network centered on petroleum-related fields. Through exchanges in human resources and information sharing among Group research centers in countries such as Great Britain, the United States, the Netherlands, and Germany, we endeavor to secure the most appropriate human resources and the latest technology.



Central Research Laboratory

Ariake Hydrogen Station Supplies Its 3,000th Vehicle

Expectations for hydrogen are high as an extremely clean energy. Showa Shell, in conjunction with Iwatani Corporation, operates the JHFC Ariake Hydrogen Station (Koto Ward, Tokyo) for supplying fuel cell and hydrogen-powered vehicles with automotive-grade hydrogen. On March 23, 2009, the Ariake Hydrogen Station supplied its 3,000th vehicle, an unprecedented milestone for a stand-alone hydrogen station in Japan. Fill-ups at the station to date have amounted to some 6,000kg of hydrogen; enough fuel for a fuel cell or hydrogen-powered vehicle to travel around the world about 15 times.

After nearly six years of demonstration testing, the completion of 3,000 fill-ups without a single accident or injury can be considered a major accomplishment in advancing the eventual commercialization of hydrogen stations. We will continue efforts to bring such stations into practical use in the future by accumulating business expertise to operate stations safely and consistently.



JHFC Ariake Hydrogen Station

GTL Demonstration Testing

GTL is an environmentally friendly liquid fuel synthesized from natural gas that is virtually free from sulfur or aromatics. The Shell Group currently operates the world's first GTL plant in Malaysia, and Showa Shell is using this GTL in a wide range of initiatives.

For one year through to the end of March 2009, we used the Central Research Laboratory's employee commuter bus to conduct public road trials using 100% GTL diesel oil. With technology support from the manufacturer of the bus, Toyota Motor Corporation, and its seller, Hino Motors Ltd., we successfully demonstrated that GTL fuel remains useable and problem-free under different ambient temperatures and other environmental changes.

Furthermore, since February 1, 2009, we have been supplying GTL as a FTD (Fischer-Tropsch Diesel) fuel for the FTD fuel road trials underway by the Tokyo Metropolitan Government, Toyota Motor Corporation and Hino Motors Ltd. These road tests are being conducted as part of EFV21, a project for developing and promoting the commercialization of next-generation low emission vehicles. The project is centered on the National Traffic Safety and Environmental Laboratory, an independent administrative institution, under commission from Japan's Ministry of Land, Infrastructure, Transport and Tourism. Showa Shell is scheduled to supply 100% GTL fuel for two route buses (state-of-the-art hybrid buses) operated by the Tokyo Metropolitan Government's Bureau of Transportation, in a one-year test project to demonstrate an effective model for low-carbon traffic and transportation in major cities.



GTL plant in Malaysia



State-of-the-art hybrid buses of the Tokyo Metropolitan Government's Bureau of Transportation

INITIATIVES FOR SUSTAINABILITY

Showa Shell strives to safely and consistently provide high-quality energy products and services, while meeting the challenge to reduce its environmental impact in the quest for sustainable growth. To realize these goals, we are working in cooperation with our shareholders, such as collaborating partners, employees, local communities, and other stakeholders to create a management structure that is more environmentally conscious.

“Energy Challenge” for Sustainability

“Energy Challenge” embodies our commitment to building in partnership with stakeholders a framework for supplying sustainable energy by “securing stable energy supplies,” “reducing adverse environmental impact,” and “developing new energy sources and environmentally friendly products.”

“Securing stable energy supplies” means that amid growing global energy demand going forward, we will continue to safely and stably supply energy by securing the necessary resources and seeking the optimal supply structure in a supply chain from crude oil procurement to the product supply.

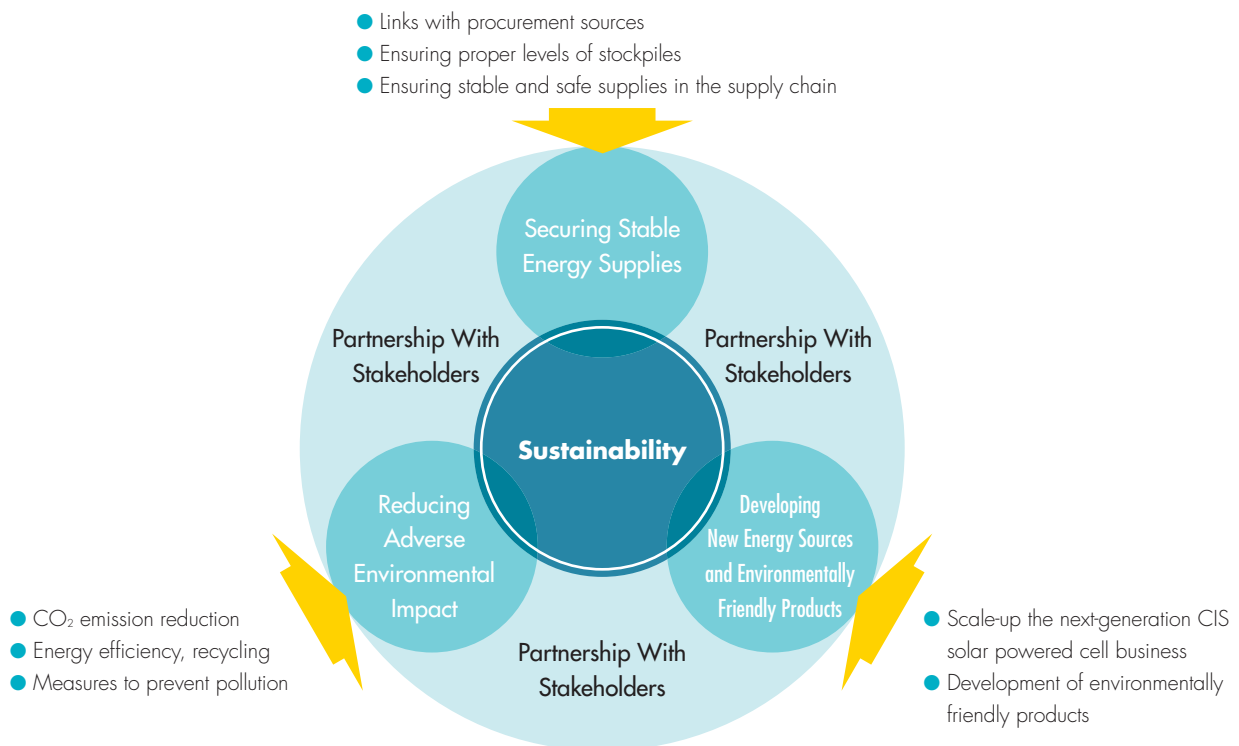
For “reducing adverse environmental impact,” we intend

to continuously implement measures to prevent pollution of air, water, soil and other pollution. In tandem, we will pursue improved energy and general efficiency at our refineries and at every stage of product transport to realize further reductions in greenhouse gas emissions.

With “developing new energy sources and environmentally friendly products,” we are dedicated to supplying high-quality energy that is friendly to the environment. In addition to the next-generation CIS solar powered cells that we began producing commercially in 2007, our environmentally friendly products include *Shell Pura* and *Shell Eco Toyu*, etc.

Securing Stable Energy Supplies

Showa Shell, through a global partnership with its principal shareholder, the Shell Group, and Saudi Arabia’s state-owned oil firm, Saudi Aramco, is involved in joint research and other efforts to expand its energy offerings and realize efficient crude oil procurement. As an energy company, contributing to the safe supply of energy to Japan is one of Showa Shell’s important social responsibilities. As such, we maintain crude oil and oil products as part of privately held stockpiles under Japan’s Oil Stockpiling Act.



As part of our efforts to achieve a stable supply of products, in 2007 we initiated our "Quality First" quality assurance campaign designed to ensure quality and safety throughout the entire supply chain. Since 2008, our campaigns for quality and safety assurance have been fully integrated under a new banner—"Safety & Quality First." As a result, we have successfully enhanced our safety and quality assurance system and, in addition to reducing quality-related complaints in 2008 by almost half compared to the previous year, we have also dramatically reduced all work-related injuries versus a year ago.

Reducing Adverse Environmental Impact

At our refineries, which account for most of Showa Shell Group's CO₂ emissions, we have conducted large-scale capital investments and enacted various other initiatives, including building a product portfolio tailored to trends in demand, reducing the sulfur and benzene content of our products, and implementing energy efficiency measures. In reducing CO₂ emissions, in addition to our commitment to attaining targets for unit energy consumption adopted by the Petroleum Association of Japan, we announced in December 2008 that Showa Shell would take part in the voluntary domestic emissions trading system introduced by the Ministry of the Environment.

For our transport divisions, we are viewing revisions to Japan's Act on the Rational Use of Energy as an opportunity to reinforce energy efficiency measures as a specified ship per subject to the law. To this end, we are taking steps to improve transport efficiency, including the use of larger tanker trucks, shortening transport distances, and performing transport more efficiently. Also for marine transport, we are striving to reduce transport frequency and the fuel consumption by using larger tankers, etc.



Large tankers reduce fuel consumption

Developing New Energy Sources and Environmentally Friendly Products

As urgency regarding environmental measures mounted, Showa Shell was among the first to pursue the development of environmentally friendly energy, building a framework for supplying a diverse range of energies. In one of these areas, the next-generation CIS solar powered cells that we first produced commercially in 2007, we decided in 2008 to strengthen technology development by establishing the Atsugi Research Center and embarked on joint R&D with respect to mass production technology. Our goal for next-generation CIS solar powered cells is to develop this business to a level equal to our oil business. On the strength of their environmental performance and the future viability of the manufacturing technology used, our "solacis" next-generation CIS solar powered cells received the Minister of Economy, Trade and Industry Prize, the highest award presented at the 12th New Energy Awards sponsored by the New Energy Foundation. (Refer to p. 20–21 for more details.)

In March 2009, we installed a quick-charger for electric vehicles at a service station in the city of Fujisawa, Kanagawa Prefecture. This installation of a quick-charger at a service station was the first of its kind in Japan. Additionally, we will continue our efforts to develop and commercialize high-quality products that have less impact on the environment. Among other initiatives, we are working on sales of *Shell Eco Toyu*, a product made from GTL technology that synthesizes liquid fuel from natural gas, the introduction of biofuel, a demonstration test for the supply of fuel to fuel cell vehicles at hydrogen stations, and an experimental test of residential fuel cell systems fuelled by LPG.



New trucks with improved load sizes and safety performance

Partnership With Society

The cooperation of all stakeholders is essential for achieving sustainable growth through our "Energy Challenge" initiatives. As a responsible corporate citizen, Showa Shell not only pursue environmental measures in its business supply chains, but works in conjunction with shareholders, customers, business partners and employees to conduct social contribution activities in a range of fields, including the environment, culture and the arts.

Recently our activities have had a particular focus on the education of the next generation, who will go on to create the society of tomorrow. One of our initiatives is the Environmental Photo Contest, "Things to Preserve and Correct Around Our Town," a photography contest that began with the goal of encouraging people to take a fresh look at their familiar surroundings with an eye to environmental preservation. In 2008, its fourth year, the contest evolved into an

educational tool for schools. Since we established a new group award for schools, the number of entrants in the junior category doubled from the previous year.

Another of our ongoing educational projects is our cooperation in "Christmas Lectures" on scientific themes, same contents traditionally held in Britain, and holding a Summer Vacation Energy Class. Our aim is to provide an opportunity for children to learn about science and energy.

We also cooperate with an NGO to provide opportunities for our employees to participate in tree-planting activities through the "Project for the Reforestation of Mt. Fuji."

Another of our activities is the Shell Art Award. Established more than half a century ago in 1956, as a result of this long history the award has come to be recognized in Japan's art world as a gateway to success for artists, with many talented young artists being discovered each year.



Judging the Environmental Photo Contest



Award ceremony for the Shell Art Award

Forging a "Next-Generation Energy Vision"

Under our "Energy Challenge" initiatives, in 2007 Showa Shell launched the Energy Sustainability Forum in cooperation with the Integrated Research System for Sustainability Science (IR3S), as part of an effort to build a long-term vision for energy in Japan and the rest of Asia.

Since 2008, the Energy Sustainability Forum has held three public symposia on the theme of energy sustainability for a low-carbon society with discussion covering the theme from industry, policy and academic aspects. The third symposium provided a forum for Showa Shell to announce that it had begun its work to contribute to building a low-carbon society. Chairman of Showa Shell Shigeya Kato participated as a panelist, noting "While our mission as an energy company is to provide a stable supply of energy, we are also taking steps to realize a low-carbon society by reducing the burden on the environment and developing new energy and environmentally friendly products." President Jun Arai greeted participants at the symposium, saying "My hope is that symposia such as these will be an opportunity for gaining an understanding of society's needs, and encouraging self-initiated steps towards a low carbon society."

We plan to compile a proposal for energy sustainability based on the discussions at the three symposia to use as a reference in our energy strategy and to make a proposal to society about energy sustainability.



Chairman Shigeya Kato participating in the panel discussion



Scene from a panel discussion

Introduction of Biofuel



Hitoshi Satou

MANAGING DIRECTOR
Japan Biofuels Supply LLP
(Limited Liability Partnership)
Senior Operating Officer

As part of its policy for reducing national emissions of greenhouse gas, the Japanese government has decided to reduce CO₂ emissions from transport fuel by having manufacturers improve the fuel efficiency of automobiles, and introducing biofuel into automotive fuel. Specifically, the government has set a target of introducing biofuel equivalent to 500,000 kiloliters of crude oil as transportation fuel in 2010.

Showa Shell has invested in a limited liability partnership (LLP) that procures and sells biomass fuel, and has participated since April 2007 in a pilot distribution operation for bio-gasoline with support from the Ministry of Economy, Trade and Industry. The bio-gasoline used in the pilot operation is regular gasoline blended with bio-ethanol made from plants and ethyl tertiary-butyl ether (ETBE) which is an isobutene compound petroleum gas.

In the pilot distribution operation from April 2007, Showa Shell carried out sales of bio-gasoline at seven service stations in the Tokyo Metropolitan area. From May to June 2008 this was extended by a further nine stations in the Tokyo Metropolitan area and the Tohoku region, with sales continuing until March 2009.

Showa Shell is making preparations for its plan to sell bio-ETBE blended fuel when full-fledged introduction of biofuels commences in 2010.



A service station selling bio-gasoline

Disaster-Proof Service Stations



Naoto Komatsu

EXECUTIVE OFFICER
General Manager
in Retail Sales Division

During the Great Hanshin-Awaji Earthquake and the Mid-Niigata Prefecture Earthquake service stations were noted as robust structures in times of disaster, and the need for continued fuel supplies for emergency response vehicles of the police and fire departments was also reconfirmed.

Showa Shell is undertaking the development service stations that are equipped to respond in disasters, contributing to the local society in times when infrastructure is cut off in a major natural disaster, by providing stable supplies of fuel and serving as a lifeline for the surrounding community. As of March 31, 2009 we have installed 18 such service stations. Going forward, we will take steps to expand disaster-proof service stations equipped with next-generation CIS solar powered systems produced by our Group.



Disaster-proof service station
(Fujisawa City, Kanagawa Prefecture)

“SAFETY & QUALITY FIRST 2009” GROUP-WIDE SAFETY AND QUALITY ASSURANCE INITIATIVE

To provide customers with reliable quality and safety, while contributing continuously to society through the stable supply of oil products and other forms of energy, the Showa Shell Group, including its dealers and affiliated companies, is engaged in a group-wide initiative to embed the concepts of safety and quality assurance. Under the banner of “Safety & Quality First 2009,” we are again pursuing this group-wide initiative in 2009, with the goal of further solidifying gains in safety, reliability and quality, and leveraging this success to create an even more distinctive presence for Showa Shell.

Activities in 2008

Recognizing that quality is a core value to be provided to customers, and that ensuring reliable quality is essential to a company’s continued survival, Showa Shell in 2007 launched a company-wide quality assurance program called “Quality First 2007.” In 2008, we merged this quality initiative with safety assurance measures, which we promoted under the banner of “Safety & Quality First 2008,” or “SQF2008” for short.

Along with sharing specific issues for improving safety performance and enhancing our quality control system among relevant departments, each department positioned and executed SQF2008 as a key item in its individual enactment of the HSSE Priority Strategy Action Plan* during the year.

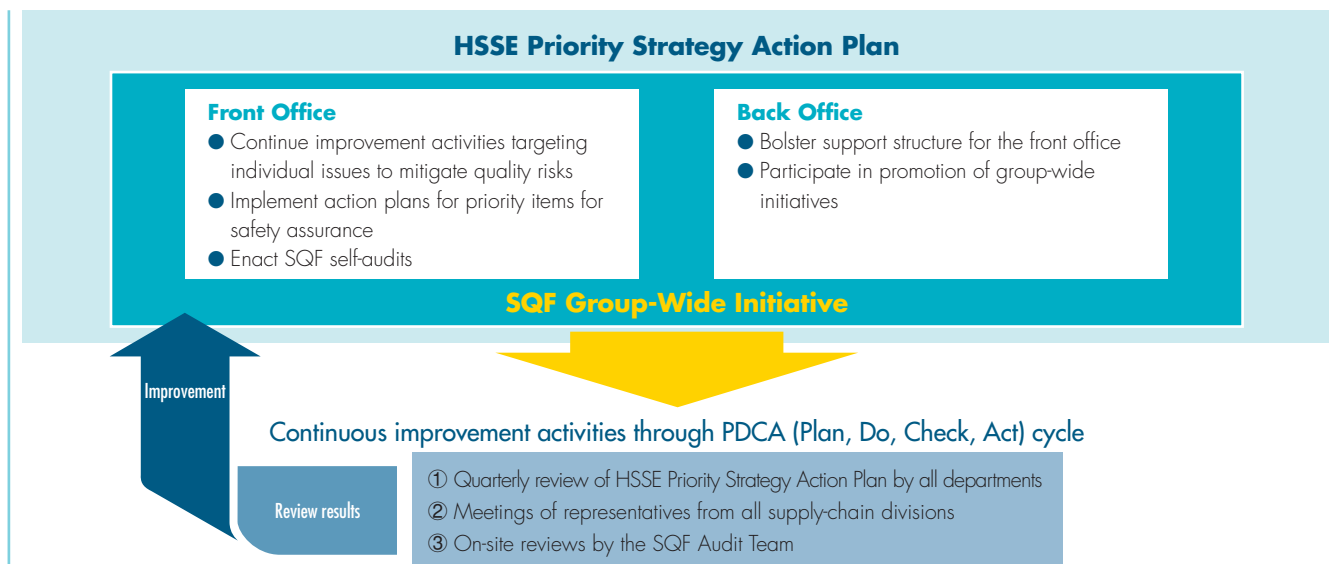
* Based on a system operated by the Shell Group, the Showa Shell Group operates an HSSE Management System (HSSE-MS) to comprehensively manage risks pertaining to health, safety, security and the environment. Showa Shell formulates an annual HSSE Priority Strategy for improving performance in these areas based on a yearly HSSE review. All departments are then charged with drafting and enacting an HSSE Priority Strategy Action Plan for achieving strategy objectives.

Developments in 2009

Our range of SQF activities in 2008 resulted in fewer personal injuries in the workplace compared to the previous year, as well as the absence of any major facility incidents. Customer complaints related to quality were also at about half the level of the previous year. These outcomes are evidence of the success of our group-wide safety and quality assurance activities.

With that said, Showa Shell is experiencing rapid business development in next-generation CIS solar business, power generation business, and with the integration of its LPG operations. Responding to the new risks related to safety and quality from this growth is now an urgent task.

For 2009, our fundamental stance is to continuously implement our group-wide initiative under PDCA (Plan, Do, Check, Act) cycles and evolve the next stage of the program. Furthermore, we intend to move quickly to apply the aforementioned HSSE Management System to risks associated with business expansion. Doing so will clarify risks and measures for mitigating them, thus allowing us to deal properly with threats before they fully materialize.





Hitoshi Satou

MANAGING DIRECTOR
Personnel, Industrial Relations, General
Affairs, and Internal Control Promotion
(including Corporate Governance)

Showa Shell has set the objective of achieving sustainable growth and increasing corporate value through the fulfillment of its corporate social responsibilities to shareholders, customers, cooperating company, employees, society, and all other stakeholders. To achieve this goal, we are building a governance structure that is optimal for the Company and verifying the effectiveness of its governance functions, while also taking steps to enhance management transparency and efficiency.

Corporate Governance Structure

Showa Shell has promoted corporate governance reforms since 1997. Initiatives have included a reduction of the number of directors, adoption of an executive officer system, and clarification of executive officers' responsibilities and authority, in a push to firmly separate management oversight from business execution.

The new management structure launched in April 2009 has strengthened the oversight function of the Board of Directors by appointing outside directors to half of the Company's eight directorships. Moreover, the new structure has reinforced the Company's business execution structure by decreasing the number of directorships with concurrent business execution duties, while increasing the number of executive officers and making a clear distinction between the roles of the Board of Directors and the executive officers. Further, we established the Corporate Governance Committee, which includes outside experts, as a permanent advisory organization to the Board of Directors. The committee advises on important matters relating to corporate governance, thereby promoting greater management transparency.

Brief History of Governance Structure Development at Showa Shell

1997	Number of directors reduced from 26 to 22 Code of Conduct set out
1999	Number of directors reduced from 18 to 11 Executive officer system adopted
2003	Executive officer system revised, Management Executive Committee established Outside directors increased by 1 Voice of People established
2004	Corporate Governance Committee established
2005	Outside directors increased by 1
2006	Internal Control Promotion Committee established
2007	Disclosure Sub-Committee established Executive retirement allowance system abolished
2009	Outside directors increased by 1 (4 of 8 directors now outside directors)

Internal Control

We established a Basic Policy on Internal Control in order to pursue further transparency and efficiency of management and to fulfill social responsibilities as a corporate group composed of Showa Shell and its subsidiaries. Through the dissemination of this policy down to the working level, we have built a system that provides an autonomous monitoring function that enables us to practice balanced and sound management as we strive for sustainable, long-term growth. Since April 2009, we have opted for a system that creates more substantive involvement of the executive officers in overall company control by having Management Executive Committee members serve on the Internal Control Promotion Committee, HSSE Committee, and Internal Audit Committee.

Compliance

Showa Shell has formulated a Code of Conduct (see p. 35) as a general behavioral guideline that all employees should follow while conducting business activities. This code clarifies not only the necessity of legal compliance, but also the need to fulfill social responsibilities in line with the highest corporate ethics standards. Furthermore, to help put principles into practice, a Compliance Book was compiled in 2008. Following publication of the Compliance Book, our Compliance Web Learning programs for employees has been taken by over 93% of employees, a high rate that has further enhanced compliance awareness. To accompany the Code of Conduct, we have formulated and are extensively disseminating compliance regulations with respect to antitrust laws and a variety of other laws and regulations.

Another system in place is the Voice of People (VOP), an internal consultation service that enables employees of Showa Shell and its subsidiaries to provide information regarding corporate ethics concerns, as well as constructive proposals for the Company, anonymously if necessary. This system allows these suggestions to be reflected in management practices.

Our policy with regard to criminal organizations is to be always on guard, and take a firm stance against them, with the view that organizations of this kind represent a threat to the order and safety of civil society. Accordingly, our system involves an organizational response that designates the departments responsible for formulating our response and that maintains contact with the police and other external specialists and institutions.

Information Management

We have set regulations regarding information management, and vested responsibility for information management in each department manager. Furthermore, information management is conducted in response to the management level such as internal and external confidential information, with important documents centrally managed by the Legal Department. We have formulated and released both within and outside of the Company a Basic Policy on Disclosure, under which accurate information is released in a timely manner. We have also established a Disclosure Sub-Committee under the organizational authority of the Internal Control Promotion Committee. This configuration gives Showa Shell a system for ensuring the completeness, timeliness, and appropriateness of information disclosed, thereby further heightening management transparency.

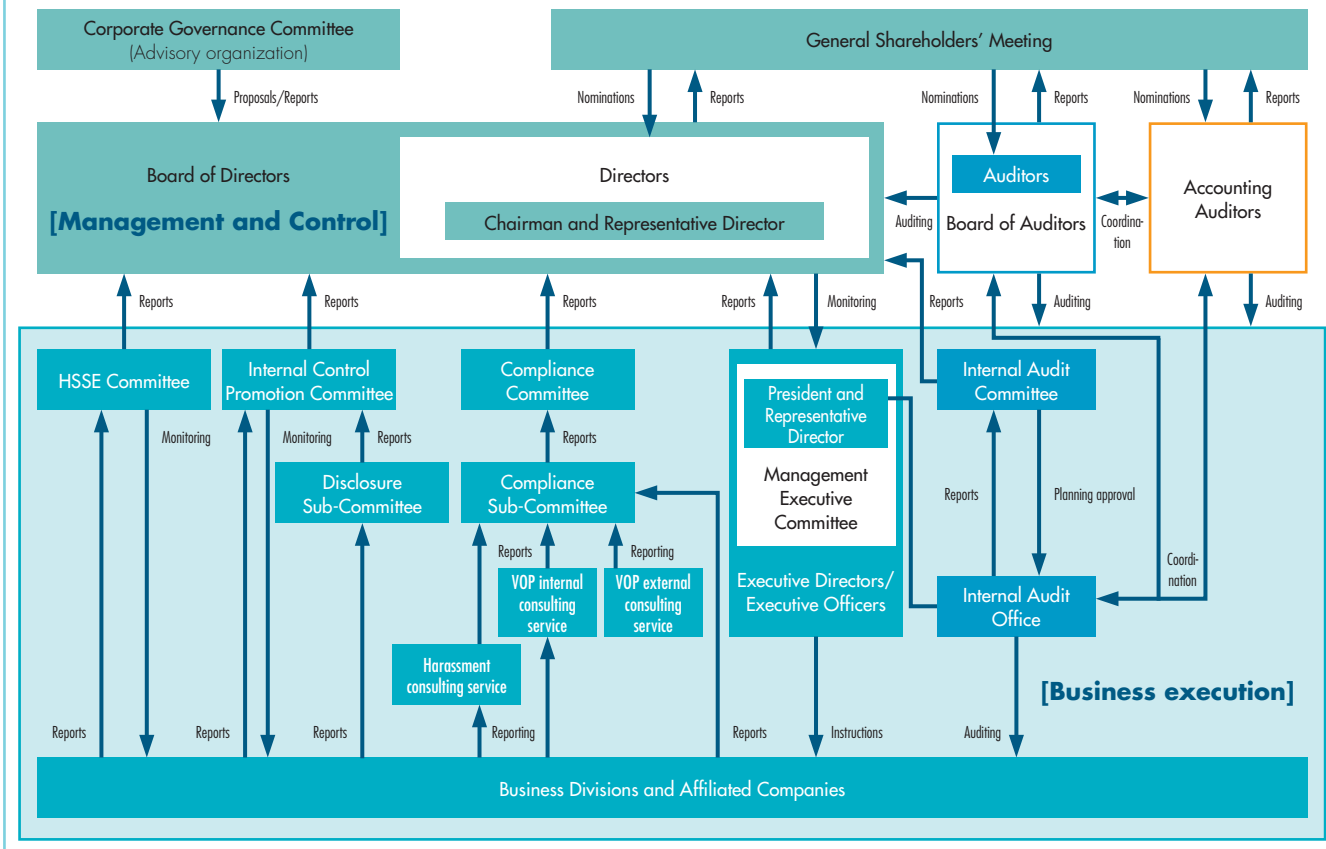
Improving Operational Effectiveness and Efficiency

Organizational streamlining and clearer decision-making authority have resulted in faster and more flexible decision-making at Showa Shell. We have organized various committees, among them the Investment Committee and Ordering Committee, that serve as advisory bodies in order to reflect the specialized perspectives of each business segment when making decisions on important matters. We draft and regularly verify the progress of our medium-term management vision and the status of our financial year budget, and take measures accordingly to execute business efficiently.

Internal Controls at Group Companies

In order to develop a more effective group-wide internal control system, we have been carrying out an internal control system development project at affiliate companies. The project, which is undertaken at 37 companies, covers the development of regulations relating to internal controls, ensuring employees are familiar with these regulations, and checking their operational status. In September 2007, we established the Group Auditors Office with the aim of strengthening the auditing functions of auditors at affiliates. We have also formulated Basic Policy on Internal Control in our affiliated companies, with the object of further strengthening our internal control group-wide.

Corporate Governance System and Internal Control System



Risk Management System

With respect to business risks, Showa Shell is devising measures on a company-wide basis regarding high priority matters through the annual preparation and review of a business control matrix. This business control matrix identifies the risks associated with business targets and ascertains the degree of effect and the status of control of these risks.

Furthermore, HSSE (health, safety, security, and environment) risks are among the risks that have a potential effect on Showa Shell's corporate value and business. The management system for these risks is periodically audited and improved by the Health, Safety, Security and Environment (HSSE) Division, which is also responsible for conducting educational and training activities on a company-wide basis. The HSSE Committee, meanwhile, approves annual

HSSE basic policies, carries out performance reviews of established action targets, and evaluates the effectiveness of HSSE-related activities.

In order for the company to be able to continue with key business operations even in the event of an accident or disaster, a Crisis Management Plan and Business Continuity Plan have been drafted. Training and review of these plans is carried out regularly.

In addition, the Company has created itemized checklists to monitor the status of the management of risks, which could be encountered on a daily basis, including compliance risks. Department managers are required to conduct an annual self-evaluation of the status of the management of these items and report the results to the Internal Control Promotion Committee.

J-SOX (COMPLIANCE WITH THE FINANCIAL INSTRUMENTS AND EXCHANGE LAW)

Financial statements are vital tools for helping investors and other stakeholders to make investment decisions. Putting in place and operating internal controls for ensuring the reliability of these statements is thus an important responsibility for publicly listed companies.

At Showa Shell, we not only strive for the complete reliability of our financial statements, but also pursue greater operational efficiency and effectiveness in the quest to improve corporate value.

Reliability of Financial Statements (Compliance with J-SOX)

Passed into law in June 2006, Japan's Financial Instruments and Exchange Law (popularly known as J-SOX) has mandated the adoption of a system of reporting on internal control by publicly listed companies. The law came into effect from the financial year beginning April 1, 2008. To comply with J-SOX ahead of its enforcement, Showa Shell began researching the development of internal controls specific to financial statements in 2006. In 2007, we established a company-wide project the Financial Information Assurance Project Team to build a framework for evaluating the effectiveness of internal controls pertaining to financial statements.

Under the project, Showa Shell exchanges information with the Shell Group, which is subject to the U.S. Sarbanes-Oxley Act, and has solicited outside expertise in order to develop its internal controls in an efficient manner. We have also followed the guidelines in "On the Setting of

the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)," an opinion paper on internal controls published by Japan's Financial Services Agency and the Business Accounting Council.

Based on the viewpoint that control activities are the responsibility of every employee, we conduct various programs company-wide to raise control awareness. These include the publication of a house journal for all Showa Shell and Group company employees, lectures at in-house training seminars, and reports at monthly department manager meetings. Additionally, we are working to clarify our responsibilities under J-SOX as the deliberative body in this effort, at the Internal Control Promotion Committee serving, and to ensure that relevant directors and executive officers share a common understanding of our compliance status and any known issues.

Financial year 2009 is the first applicable financial year for J-SOX, and we have made strides in putting a reliable compliance system in place. The company president is responsible for evaluating and reporting on the effectiveness of internal controls pertaining to financial statements. Furthermore, testing functions have been moved from the Financial Information Assurance Project Team, which is responsible for evaluating internal controls concerning financial statements, to the Internal Audit Department. This change ensures that Showa Shell has a system for testing internal controls from an independent standpoint.

Compliance with J-SOX and Business Process Reform

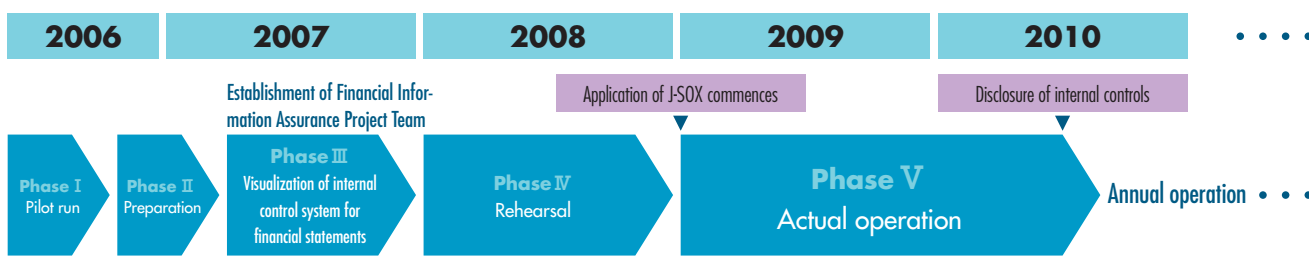


Kiyotaka Yamada
EXECUTIVE OFFICER
Finance & Control

In establishing and operating an internal control system for financial reporting, Showa Shell has taken the opportunity to make extensive business process reforms beyond compliance with J-SOX. Recognizing individual business processes through clear writing serves not only to reinforce awareness of the role each process plays within the wider framework, but leads to improved standardization overall. An additional benefit to standardizing business processes among business divisions is a stronger efficiency-raising effect of IT systems.

We therefore welcome the introduction of J-SOX as an opportunity for better understanding throughout the Group of the importance of financial reporting and the contribution of business process reform.

Showa Shell Schedule for Application of J-SOX



CODE OF CONDUCT

We, the directors, officers and employees of the company, affirm our commitment to the Management Philosophy. In order to meet the challenges of an ever-changing business environment and to increase the trust and confidence of all stakeholders in our company and earn the respect of society, we hereby promulgate the Code of Conduct based upon the Management Philosophy.

1. Objectives

Showa Shell's objective is to engage responsibly and efficiently in profitable business activities in the field of oil refining and sales and related areas, as well as in areas that arise from those businesses. The company shall strive for a high standard of performance and aim to maintain its position in the competitive environment.

2. Responsibilities

Showa Shell recognizes the following responsibilities:

- 1) Responsibility to shareholders
To be trusted with shareholders' investments and offer satisfying returns.
- 2) Responsibility to customers
To win and retain customers by developing and offering products and services valued in terms of price, quality, safety, and the environment. Such services are based upon Showa Shell's expert knowledge of technology, the environment, and the industry.
- 3) Responsibility to employees
To respect the characteristics and individuality of all employees and provide a safe working environment and positive working conditions. To further encourage employee development and utilization of their skills and promote employee participation in accordance with this Code of Conduct.
- 4) Responsibility to Cooperating Companies
To pursue mutually beneficial relationships with cooperating companies (including joint venture partners) and to endeavor to promote the practice of Code of Conduct principles. To make respect for the principles in this Code of Conduct one factor in commencing or continuing relationships with cooperating companies.
- 5) Responsibility to society
To conduct business as a responsible corporate citizen, comply with the law, and respect basic human rights. To further give ample consideration to health, safety, security, and the environment in the quest for sustainable development.

3. Economic Principles

Showa Shell realizes that sound profits are essential to fulfilling its responsibilities and sustaining its business. Profits are a measure of both the company's efficiency and customers' satisfaction with the company's products and services. Profits are also essential to allocating company resources and continuous investment in order to ensure a stable energy supply in response to customer needs. Without profits and a firm financial base, the company cannot

fulfill its responsibilities outlined above. Investment decisions are made not only with regard to economic feasibility, but also with serious consideration for other factors, including social and environmental impact.

4. Corporate Ethics

The company has formulated and observes internal regulations, and it demands honesty, integrity, and fairness in all aspects of business operations. The same is expected in its relations with all business partners. The offer, payment, solicitation, and acceptance of bribes in any form constitute unacceptable business practice. Employees must avoid conflicts of interest between their private financial interests and the conduct of company duty. All business transactions on behalf of the company must be reflected accurately and fairly in the accounts of the company in accordance with established procedures, and are subject to audit.

5. Political Activities

Showa Shell shall act in a socially responsible manner under the law in the pursuit of its business objectives. Showa Shell shall not make payments to political parties, organizations or their representatives or take part in party politics. However, it shall retain the right to make known its position on any matter that affects its own interests, or the interests of its employees, customers, or shareholders.

6. Health, Safety, Security, and Environment

Showa Shell shall make systematic and continuous efforts in the areas of health, safety, security, and the environment in the pursuit of ongoing corporate development. The company shall approach these matters as it does other critical business matters, and shall set goals for improvement and measure, evaluate, and report results.

7. The Community

Showa Shell shall, as a responsible member of society, make positive contributions to the community. The company recognizes that the most important contribution to society it can make is in performing its business activities as efficiently as possible.

8. Competition

Showa Shell shall compete freely and fairly in compliance with competition laws.

9. Communications

Showa Shell shall recognize the importance of disclosing corporate information due to the importance of its business activities and the effect they may have on the national economy as well as individuals. The company shall disclose such information in a timely and appropriate manner.

10. Showa Shell Group Companies

Showa Shell shall strive to ensure that its subsidiary companies adopt and adhere to this Code of Conduct, just as the company has committed to do.

BOARD OF DIRECTORS AND CORPORATE AUDITORS (As of 27 March 2009)



CHAIRMAN AND REPRESENTATIVE DIRECTOR
Shigeya Kato

PRESIDENT AND REPRESENTATIVE DIRECTOR
Jun Arai

VICE PRESIDENT AND DIRECTOR
Richard A. Carruth
 CFO, Finance & Control,
 Financial Information Assurance
 Project, Procurement, and IT Planning

MANAGING DIRECTOR
Hitoshi Satou
 Personnel, Industrial Relations,
 General Affairs,
 and Internal Control Promotion
 (including Corporate Governance)

DIRECTOR
Yoshihiko Miyauchi
Tan Chong-Meng
Yukio Masuda
Khalid D. Al-Faddagh

AUDITOR
Hisao Nozaki
Kanji Yamamoto

AUDITOR (EXTERNAL AUDITOR)
Midori Miyazaki
Kenji Yamagishi

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

Shigeaki Kameda
 Solar Business Center

CORPORATE EXECUTIVE OFFICER
Atsuhiko Hirano
 Solar Business Center

Kazunori Yamamoto
 Supply, Oil Products,
 and Crude Oil & Marine

Hiroto Tamai
 Corporate Planning, Secretariat,
 and Power Business

Tsuyoshi Kameoka
 Sales, Commercial Sales,
 Marketing Planning, Retail Sales,
 and Branch Offices

EXECUTIVE OFFICER
Naoto Komatsu
 General Manager
 in Retail Sales Division

Kiyotaka Yamada
 Finance & Control

Katsuhiro Nakagawa
 Home Solution and
 New Business Promotion

Misao Hamamoto
 Manufacturing

Tomoaki Ito
 HSSE, Research & Development,
 and Laboratory

Kaoru Shiraki
 Distribution & Operations,
 Real Estate Business, and Import Terminal

Yuri Inoue
 Legal

Katsuaki Shindome
 Manager in Kinki Branch

Naomasa Okuda
 Manager in Metropolitan Branch

Brooks Herring
 Reporting to President,
 in charge of Special Missions

(From left, the first row):
 Shigeya Kato
 Jun Arai

(From left, the second row):
 Tan Chong-Meng
 Yoshihiko Miyauchi
 Richard A. Carruth
 Hitoshi Satou
 Yukio Masuda
 Khalid D. Al-Faddagh

(From left, the third row):
 Hisao Nozaki
 Midori Miyazaki
 Kenji Yamagishi
 Kanji Yamamoto

NETWORK, MAJOR SUBSIDIARIES AND AFFILIATES

NETWORK (1 April 2009)

Head Office	Daiba Frontier Bldg., 2-3-2, Daiba, Minato-ku, Tokyo 135-8074
Corporate Planning Division	Commercial Sales Division
Crude Oil & Marine Division	Distribution & Operations Division
Financial Information Assurance Project Team	Finance & Control Division
General Affairs Division	Health, Safety, Security and Environment (HSSE) Division
Home Solution Division	Industrial Relations Division
Internal Audit Division	Internal Control Promotion Division
International Sales Division	IT Planning Department
Legal Department	Lubricants & Bitumen Division
Manufacturing Division	Marketing Planning Division
New Business Promotion Division	Oil Products Division
Personnel Division	Power Business Division
Procurement Team	Public Affairs Division
Real Estate Business Division	Research & Development Division
Retail Sales Division	Sales Division
Solar Business Center	Supply Division

Ishioka Training Center	3-21-11, Minamidai, Ishioka, Ibaraki 315-0035
Central Research Laboratory	4052-2, Nakatsu, Aikawa-machi, Aiko-gun, Kanagawa 243-0303

Branches

Hokkaido Branch	Nishi 1-1-2, Kita 7-jo, Kita-ku, Sapporo, Hokkaido 060-0807
Tohoku Branch	4-1-1, Ichiban-cho, Aoba-ku, Sendai, Miyagi 980-0811
Metropolitan Branch	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004
Kanto Branch	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004
Chubu Branch	3-25-9, Meieki, Nakamura-ku, Nagoya, Aichi 450-0002
Kinki Branch	3-6-1, Doshumachi, Chuo-ku, Osaka-shi, Osaka 541-0045
Chugoku Branch	2-7-10, Otemachi, Naka-ku, Hiroshima-shi, Hiroshima 730-0051
Shikoku Branch	1-3-1, Kotobuki-cho, Takamatsu, Kagawa 760-0023
Kyushu Branch	3-11-1, Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka 810-0001

Petro-Product Import Terminal

Niigata	21, Heiwa-cho, Higashi-ku, Niigata-shi, Niigata 950-8723
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Lubricant Blending Plants

Yokohama	2-4, Anzen-cho, Tsurumi-ku, Yokohama, Kanagawa 230-0035
Kobe	6-1-17, Namimatsu-cho, Nagata-ku, Kobe, Hyogo 653-0055

Terminal Management Center

Management Terminal (Tokyo)	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004
Management Terminal (Osaka)	3-6-1, Doshumachi, Chuo-ku, Osaka-shi, Osaka 541-0045
Management Terminal (Yokkaichi)	1, Shiohama-cho, Yokkaichi, Mie 510-0851
Management Terminal (Seibu)	5, Oaza-Nishioki, Onoda, Yamaguchi 756-0885
Management Terminal (Sodegaura)	1, Kitasode, Sodegaura-shi, Chiba 299-0266

MAJOR SUBSIDIARIES AND AFFILIATES (31 December 2008)

Company name	Major businesses
Consolidated subsidiaries (40 companies)	
Central Energy K.K.	• Oil products sales
Chuo Shell Sekiyu Hanbai K.K.	• Oil products sales
Enessance Holdings Co., Ltd.	• Oil products sales
Genex Co., Ltd.	• Power provisions
Heiwa Kisen Kaisha, Ltd.	• Depots operation • Shipping brokerage
Jonen Co.	• Oil products sales
Kanto Koyu Energy Co., Ltd	• Oil products sales
K.K. Marushin	• Oil products sales
K.K. On Site Power	• Dispersed power provision
K.K. Rising Sun	• Automobile parts sales • Equipment lease • Insurance agent
K.K. Shinyo Sekiyu	• Oil products sales
K.K. Sun Road	• Oil products sales
Nagase Oil Ltd.	• Oil products sales
Nakagawa Oil Co., Ltd.	• Oil products sales
Nippon Grease Co., Ltd.	• Grease and lub sales
Nissho Koyu K.K.	• Oil products sales
Petro Star Kansai Co., Ltd.	• Oil products sales
Petro Star Kanto Co., Ltd.	• Oil products sales
Shoseki Engineering & Construction Co., Ltd.	• Design and construction of oil related facilities
Shoseki Kako K.K.	• Bitumen production and sales
Shoseki Overseas Oil Development Co., Ltd.	• Management of EP project companies
Tokyo Shell Pack K.K.	• Oil products sales
Showa Shell Sempaku K.K.	• Transportation of oil products
Showa Shell Solar K.K.	• Production and sales of solar cell module
Showa Yokkaichi Sekiyu Co., Ltd.	• Oil refining
Toa Oil Co., Ltd.	• Oil refining
Wakamatsu Gas K.K.	• Sales of oil products • City gas business
Other 13 companies	

Company name	Major businesses
Equity-method affiliates (12 companies)	
Central Sekiyu Gas Co., Ltd.	• Oil products sales
Daia Shoseki K.K.	• Oil products sales
Japan Oil Network Co., Ltd.	• Storing
Joyo Shell Sekiyu Hanbai K.K.	• Oil products sales
Marubeni Energy Corporation	• Oil products sales
Mieseki Shoji K.K.	• Oil products sales
Niigata Joint Oil Stockpiling Co., Ltd.	• Stock piling
Seibu Oil Co., Ltd.	• Oil refining
Shell Sekiyu Osaka Hatsubaisho K.K.	• Oil products sales
Shell Tokuhatsu K.K.	• Oil products sales
Toyotsu Petrotex Co. Ltd.	• Oil products sales
TS Aromatics Ltd.	• Sales of petrochemical products

FINANCIAL SECTION

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TWELVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Years ended 31 December

	2008	2007	2006	2005
Net sales	¥3,272,801	¥3,082,641	¥2,921,287	¥2,268,488
Cost of sales	3,161,950	2,874,422	2,728,137	2,056,023
Gross profit	110,851	208,219	193,149	212,465
Sales and administrative expenses	123,134	119,405	118,847	114,084
Operating income (loss)	(12,283)	88,813	74,301	98,381
Ordinary income (loss)	(10,065)	92,709	77,675	100,497
Net income (loss) after taxes	(16,221)	43,729	46,249	58,370
Total assets	1,209,956	1,339,114	1,195,015	1,145,191
Total shareholders' equity* ¹	306,813	338,933	309,411	275,232
Net income (loss) after taxes per share (yen)	¥ (43.07)	¥116.12	¥122.95	¥155.31
Total shareholders' equity per share (yen)	814.63	899.90	822.20	732.08
Return on sales (operating profit basis) (%)	—	2.9	2.5	4.4
Return on sales (net income basis) (%)	—	1.4	1.6	2.6
Return on assets (%)	—	3.3	3.9	5.1
Return on equity (%)* ¹	—	13.5	15.8	23.2
Shareholders' equity ratio (%)* ¹	25.4	25.3	25.9	24.0
Number of shares outstanding at year-end (thousand shares) * ^{2,3}	376,630	376,633	376,323	375,863

*¹ The definition of "shareholders' equity" was revised under the new Corporation Law in 2006, and "shareholders' equity" under the new law excludes minority interests. Please note referred numbers above are based on new definition of "shareholders' equity," not including minority interests. "Return on equity" and "equity ratio" are also calculated quoting these numbers.

*² Treasury stock is excluded.

*³ The amount of treasury stock includes Showa Shell Sekiyu stock held by affiliates accounted for by the equity method.

Yen Million

2004	2003	2002	2001	2000	1999	1998	1997
¥1,839,445	¥1,726,917	¥1,620,359	¥1,664,954	¥1,639,475	¥1,365,478	¥1,324,752	¥1,588,067
1,665,978	1,570,155	1,460,458	1,513,626	1,477,361	1,218,732	1,171,788	1,408,789
173,466	156,761	159,901	151,328	162,113	146,746	152,963	179,278
113,280	120,787	123,500	123,274	124,442	133,691	144,445	164,434
60,185	35,974	36,400	28,053	37,670	13,054	8,518	14,844
61,927	38,188	40,101	29,052	38,913	12,191	7,223	12,901
2,362	21,000	18,665	2,610	12,499	1,828	1,999	6,387
905,823	882,299	916,690	909,902	1,002,146	974,916	992,282	1,049,931
226,955	234,773	221,604	212,168	216,349	197,562	199,711	201,479
¥ 6.14	¥ 55.96	¥ 49.69	¥ 6.95	¥ 33.19	¥ 4.85	¥ 5.31	¥ 16.95
605.25	627.07	592.18	565.36	574.77	524.25	529.95	534.64
3.3	2.1	2.2	1.7	2.3	1.0	0.6	0.9
0.1	1.2	1.2	0.2	0.8	0.1	0.2	0.4
0.3	2.4	2.0	0.3	1.2	0.2	0.2	0.6
1.0	9.2	8.6	1.2	6.0	0.9	1.0	3.2
25.1	26.6	24.2	23.3	21.6	20.3	20.1	19.2
374,868	374,303	374,125	375,280	376,409	376,850	376,850	376,850

Managers' Analysis of Financial Position and Operating Results



Richard A. Carruth
VICE PRESIDENT DIRECTOR

CFO, Finance & Control,
Financial Information Assurance Project,
Procurement, and IT Planning

Business Results for 2008

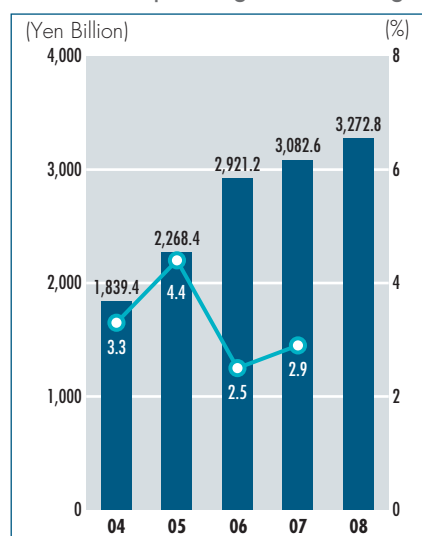
1. Business Environment

In the Japanese economy, a growing uncertainty about the future outlook prevailed towards the end of the year against the backdrop of the recession associated with the global financial turmoil, the sharp decline in corporate earnings, and the deteriorating employment situation.

The Dubai crude oil price, which started at around 89 dollars per barrel at the beginning of the year, continued to move upward until reaching a record high of 140 dollars per barrel in July. However, the subsequent deterioration in the actual economy and the accompanying slowdown in oil demand growth, which caused a sharp decline in crude oil prices, have continued to push the Dubai crude oil price down to the 36 dollars per barrel range at the end of the year. Turning to the exchange rate, after starting the year at around 109 yen range per U.S. dollar, the yen continued to appreciate, reaching 97 yen per dollar by the middle of March. The yen kept weakening until falling as low as 110 yen per dollar by August. The intensifying U.S. financial turmoil in September pushed the yen up sharply toward the end of the year with an exchange rate of 91 yen per dollar.

The domestic oil demand has still been on a downward trend even this year. The fall in demand for gasoline has become evident, demonstrated by reduced consumer spending caused by oil price hikes and weak consumption, which remains low even after the prices fell against the backdrop of changing consumer lifestyles and increase of energy-saving cars.

Net Sales/Operating Income Margin



■ Net sales
● Operating income margin

2. Operating Results

Consolidated Statement of Income

Years ended 31 December	2008	2007	(Yen Billion) Change
Net sales	¥3,272.8	¥3,082.6	¥ 190.1
Operating income (loss)	(12.2)	88.8	(101.0)
Non-operating profit (expenses)	2.2	3.8	(1.6)
Ordinary income (loss)	(10.0)	92.7	(102.7)
Extraordinary profit (expenses)	(13.3)	(14.1)	0.7
Net income (loss)	(16.2)	43.7	(59.9)

The Showa Shell Group's consolidated sales for 2008 amounted to 3,272.8 billion yen (an increase of 6.2% versus a year ago) as sales from the oil business increased atop higher oil product prices stemming from escalating crude oil prices.

However, the Group posted consolidated operating loss of 12.2 billion yen (a decrease of 101.0 billion yen versus a year ago) and consolidated ordinary loss of 10.0 billion yen (a decrease of 102.7 billion yen versus a year ago), mainly due to the increased cost of sales caused by effect of inventory valuation as a result of the drastic decline in crude oil prices. Consolidated ordinary income, excluding the effects of inventory valuation, was 45.6 billion yen (an increase of 1.4 billion yen versus a year ago).

The Showa Shell Group recorded extraordinary net losses of 13.3 billion yen due to the valuation loss on investment securities associated with a fall in Japanese stock prices, a loss from disposal of assets such as service stations and an impairment loss; partly offset by a profit from sales of unoperated assets.

Consequently, consolidated net loss totaled 16.2 billion yen (a decrease of 59.9 billion yen versus a year ago). The net loss per share amounted to 43.07 yen.

3. Segment Information

Oil Business

With regard to the oil business, sales amounted to 3,236.0 billion yen (an increase of 6.2% versus a year ago), chiefly due to the higher sales price for oil products, which benefited from the strong rise in crude oil prices, and the increased export of diesel oil, etc. which compensated for a decrease in domestic sales volume. However, the company posted an operating loss of 16.3 billion yen, a decrease of 100.8 billion yen versus a year ago. This was mainly attributable to the effect of inventory valuation calculated by weighted average method as a result of a sharp decline in crude oil prices that started in the summer and ran through the end of the year after a steep rise earlier in the year. Operating income, excluding the effects of inventory valuation, was 39.4 billion yen, an increase of 3.3 billion yen compared to 36.1 billion yen in the previous financial year.

Property Business

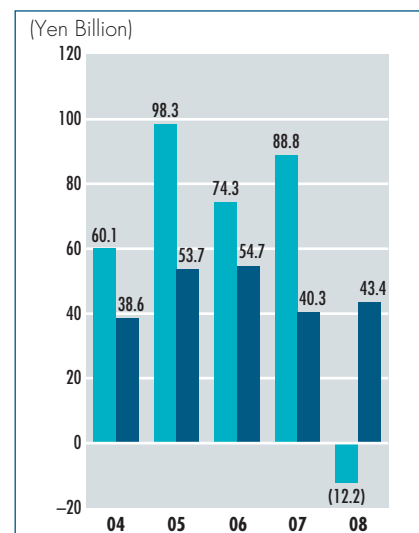
As for the office rent business, vacancies in our commercial buildings, reflecting weak office demand impacted by the slowing economy, was mainly compensated by the reduction in administrative costs and resulted in sales of 4.2 billion yen (an increase of 0.4% versus a year ago) and operating income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

Other Businesses

With regard to the next-generation CIS solar business, commercial production in the Miyazaki Plant 1 of Showa Shell Solar K.K., our consolidated subsidiary, has been under way since 2007. The Miyazaki Plant 2 has prepared to start operations in 2009. Also we decided to establish a research center aiming to enhance the technical development of the next-generation CIS solar business and started collaborative research and development activities on the mass production technologies. The Group's CIS solar powered cells won the Minister of Economy, Trade and Industry Prize, which is the top prize among the New Energy Awards, a program operated by the Agency for Natural Resources and Energy of the Ministry of Economy, Trade and Industry (New Energy Foundation).

In our power business, a large natural gas power plant, under a joint venture project, is currently under construction, targeting the start of operations in 2010. Also we started the selling electric power through Japan Electric Power Exchange (JEPX), a limited liability intermediate corporation.

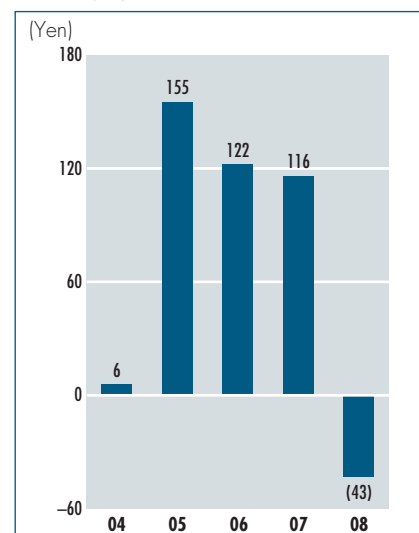
Operating Income (Loss)



■ Operating income (loss)
■ CCS operating income*

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

Earnings per Share



Consequently, sales of other businesses amounted to 32.4 billion yen (an increase of 3.6% versus a year ago) and operating income amounted to 1.1 billion yen (a decrease of 0.2 billion yen versus a year ago).

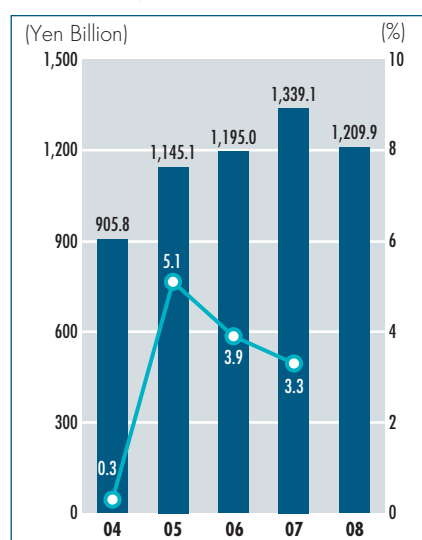
Outlook for 2009

As for the outlook for 2009, with diminished domestic demand for oil products, we estimate that consolidated net sales will be 2,010.0 billion yen, consolidated ordinary income will be 0 billion yen and consolidated net income will be 0 billion yen as a result of an expected increase in the cost of sales due to inventory valuation effects. Consolidated ordinary income excluding the effects of inventory valuation is expected to be 50.0 billion yen. The above outlook was calculated on the assumption that crude oil prices for 2009 will be 47.0 dollars per barrel in the first half of the financial year, and 56.0 dollars per barrel in the second half of the financial year. The forecasts are also based on average exchange rate assumptions of 97.0 yen to the US dollar in the first half of the financial year, and 100.0 yen to the dollar in the second half of the financial year.

Financial Position

Assets, Liabilities and Shareholders' Equity

Total Assets/ROA



■ Total assets
● ROA

Consolidated Balance Sheet

At 31 December	2008	2007	(Yen Billion) Change
Assets	¥1,209.9	¥1,339.1	¥(129.1)
Liabilities	881.5	980.8	(99.3)
(Interest-bearing debt)	279.4	183.1	96.3
Net assets	328.4	358.2	(29.8)
(Shareholders' equity)*	306.8	338.9	(32.1)

*Net assets after minority interests

Consolidated total assets as of the end of the year were 1,209.9 billion yen, a decrease of 129.1 billion yen compared with the end of the previous financial year. This was mainly attributable to considerable decreases in accounts receivable and inventories caused by the sharp fall in crude oil prices.

Consolidated total liabilities were 881.5 billion yen, a decrease of 99.3 billion yen compared with the end of the previous financial year. This was chiefly due to decreases in accounts payable and accrued income tax, which substantially exceeded an increase in borrowings. Short and long-term interest-bearing debts (borrowings, commercial paper, and bonds) were 279.4 billion yen, an increase of 96.3 billion yen from the end of the previous financial year. This was primarily due to measures to maintain sufficient liquidity on hand for the coming financial year in case conditions prevail where both direct and indirect financial markets become dysfunctional amid the financial turmoil. On a net of cash and cash equivalents basis, interest-bearing debt was 206.3 billion yen, up 39.7 billion yen from the end of the previous financial year.

Consolidated net assets as of the end of the financial year were 328.4 billion yen, a decrease of 29.8 billion yen compared with the end of the previous financial year. This was mainly due to a decrease in retained earnings including a net loss for the year. As a result, net assets (excluding minority interests) per share based on the total number of shares issued as of the end of the financial year were 814.63 yen, down from 899.90 yen for the previous financial year.

Cash Flows

Consolidated Statement of Cash Flows

At 31 December	2008	(Yen Billion) 2007
Cash flows from operating activities	¥ 26.6	¥ 44.7
Cash flows from investing activities	(42.9)	(25.6)
Cash flows from financing activities	72.3	(21.0)
Change in cash and cash equivalents	56.0	(1.9)
Cash and cash equivalents at beginning of year	15.6	16.5
Increase in cash and cash equivalents from newly consolidated subsidiaries	0	1.0
Cash and cash equivalents at end of year	71.8	15.6

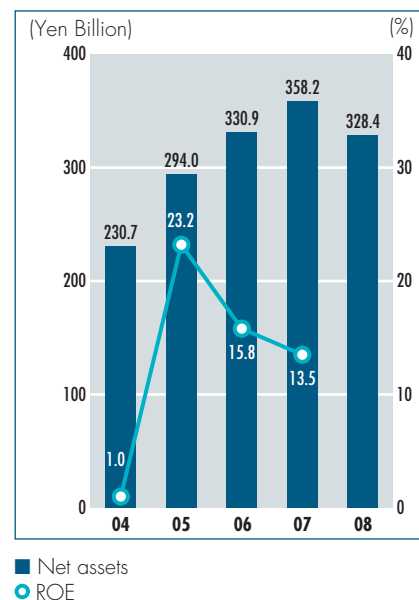
Cash and cash equivalents (hereinafter referred to as funds) as of the end of the financial year were 71.8 billion yen, an increase of 56.1 billion yen from the end of the previous financial year.

Operating activities generated 26.6 billion yen, chiefly attributable to positive factors such as no cash items that included depreciation charges and decreased inventories owing to declining crude oil prices outweighing negative factors such as the net loss.

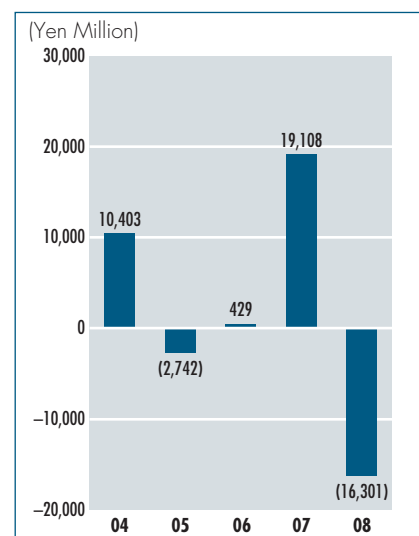
The Group used 42.9 billion yen for investing activities, mainly in capital investment in fixed assets for renovation of service stations and refinery equipment and construction of a plant for the production of CIS solar powered cells.

Financing activities totaled 72.3 billion yen, mainly owing to increased borrowings primarily for tax payments based on our high annual income in the previous year, which meant cash flows from operating activities did not cover capital investments, dividend payments, and pension contributions, as well as the maintenance of sufficient liquidity on hand.

Net Assets/ROE



Free Cash Flow



Free cash flow=Cash flow from operating activities + Cash flow from investing activities

Financial Strategy

1. Investment Strategy

Showa Shell, in addition to reinforcing the stability and earning power of the oil business, is strategically investing in the expansion of its major new business—the next generation CIS solar business—to realize sustainable growth driven by both the oil business and new businesses.

(1) Oil Business

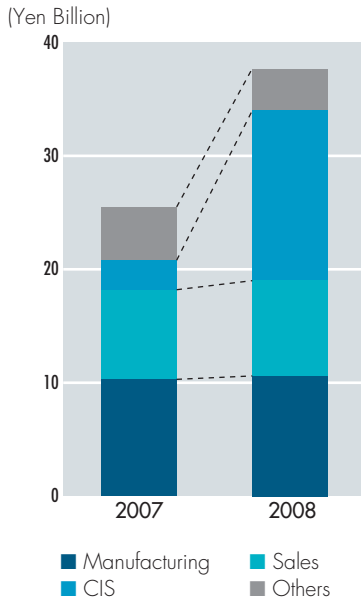
- Operational maintenance and safety measures—We will continuously invest to maintain the operational stability of our refineries and other major facilities, invest to ensure legal and regulatory compliance, and invest to minimize environmental impact throughout our entire supply chain.
- Reinforcing earning power—We will invest to enhance competitiveness, including through developing service stations and other means to improve our sales network. Similarly, we will invest to boost the competitiveness of both our refining and distribution facilities.

(2) New Businesses

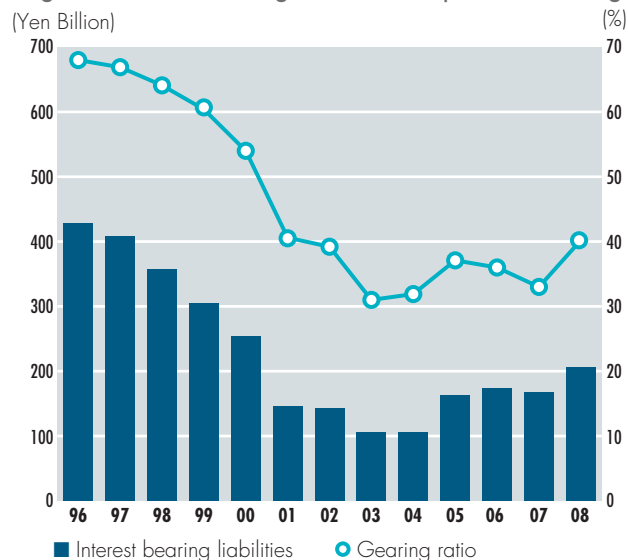
- Scale expansion in next-generation CIS solar business—We will invest not only in production facilities, but also in R&D facilities to improve production technologies. As part of this effort, we invested in the Miyazaki Plant 2 in 2008.
- Entry into new business fields—In tandem with investment in the development of eco-friendly energies and other new initiatives, we will invest in other business areas, such as the power business, that are expected to create synergies with our existing businesses.

Showa Shell carefully selects projects for investment after comprehensive consideration of each project's strategic importance and investment return profile.

Capital Expenditures in 2008 ...
37.6 Yen Billion



Interest Bearing Liabilities (Excluding Cash and Deposits)/Gearing Ratio



2. 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 continued to greatly reduce interest-bearing debt largely through the sale of assets of little importance to our core businesses, and by restricting investment. The earnings stability that has resulted has enabled Showa Shell to retain a financial standing that enables it to carry out investments for achieving sustainable growth even in a severe financial environment.

3. 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 markets 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 city banks, regional banks, and other private financial institutions such as shinkin banks or credit associations, and credit cooperatives, as well as life insurance companies.

4. Financial Risk Management Policy

Showa Shell has signed revolving credit contracts (lines of credit agreements) totaling 150 billion yen with financial institutions as a means of securing the liquidity of funds should unforeseen conditions materialize. Of these lines, 140 billion yen is in the form of earthquake response financing. In this way, we have made preparations to procure funds needed to reopen operations swiftly in the event that a major earthquake or other disaster damages our main production facilities.

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

Furthermore, in purchasing crude oil, exporting products and other foreign currency transactions we control the risk of fluctuations in exchange rates by taking currency hedges within the limits of actual demand.

5. Group-Wide Financial Management

We work to reduce financing costs by concentrating fund procurement and fund management for the entire Group at the parent company. By concentrating and distributing funds in this manner, we increase fund efficiency by connecting the financial activities between group companies through a Cash Management System (CMS).

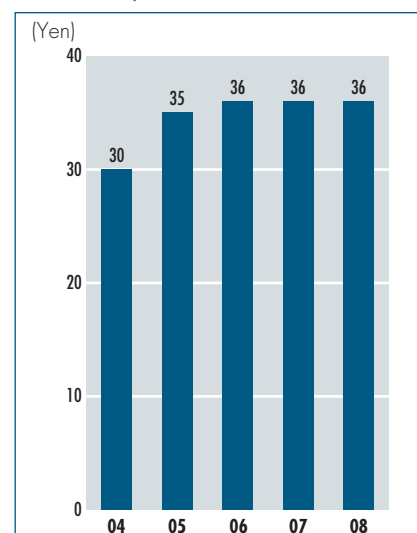
6. Shareholder Return

In 2008, 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.

Credit Ratings (As of 31 December 2008)

Rating and Investment Information, Inc.	
Long term	A
Short term	a-1

Dividends per Share



Business Risks

The Showa Shell Group has created a system to monitor and manage business risk, and endeavors to mitigate the risks associated with its business operations. Among such risks, the following are considered important related to the businesses of the Showa Shell Group and its financial position that could have a material effect on the decisions of investors. The risks described below are those risks evaluated to be material by the Showa Shell Group (on a consolidated basis) at the end of the financial year under review. This list is not meant to be, and should be not construed as, a comprehensive list of every risk affecting the Group. Furthermore, the matters discussed here concerning future circumstances are those matters evaluated by the Showa Shell Group at the end of the financial year under review.

1. Risks related to the effects of energy demand and market conditions for oil products

Domestic demand for oil products is affected by, and changes with, factors such as the economic situation in Japan and domestic energy supply and demand. Moreover, Japan's domestic oil products market is affected by factors such as fluctuations in demand, price competition with other companies in the industry, overseas prices for oil products, and price competition with other forms of energy. These fluctuating factors also exert an influence on the quantities and prices of oil products that the Showa Shell Group sells, including exports, and cause changes to the Group's earnings.

2. Risks related to changes in crude oil prices and exchange rate

a. Effect on sales margin and working capital

Because the cost of sales of the oil products sold by the Showa Shell Group is affected by changes in crude oil prices and the foreign exchange rates, the Group's basic policy is to reflect these influences in its sales prices. In case where it is difficult to reflect the changes in cost of sales, which result from factors such as the domestic market environment, in the Group's sales prices, however, these changes will cause fluctuations in the Group's earnings. In addition, there is a possibility that the amount of working capital the Group requires will increase because of a rise in crude oil prices or a rapid depreciation of the yen.

b. Effects of inventory valuation

The Showa Shell Group adopts the weighted-average method to value inventory. When crude oil prices decline, the Group's cost of sales will be increased by relatively expensive inventory at the beginning of the period, which will be a negative factor for earnings.

When crude oil prices rise, on the other hand, the Group's cost of sales will be reduced by relatively inexpensive inventory at the beginning of the period, which will be a positive factor for earnings. As this illustrates, there is a possibility that changes in crude oil prices will affect the Group's operating results.

3. Risks related to sources of crude oil procurement

The Showa Shell Group procures most of its crude oil from overseas, mainly from countries in the Middle East. There is a possibility that the financial position and operating results of the Showa Shell Group would be seriously affected in the event that obstacles arose to its procurement of crude oil, for reasons such as changes in the political climate in oil-producing countries, and assuming that an appropriate alternative supply source could not be ensured.

4. Risks related to competition with other oil companies

The Showa Shell Group is exposed to severe competition in the domestic market, mainly in the oil business, due to continued overcapacity in refineries and excess number of service stations, as well as due to declining demand for oil products. The Group strives to maintain and increase competitiveness. In case where, however, the Group cannot conduct operations efficiently in this competitive environment, there is a possibility that the Group's financial position and operating results will be affected.

5. Risks related to environmental regulations and tax levies

The oil industry, of which Showa Shell is belonged to, has enacted voluntary targets of blending biofuels in gasoline by 2010, as a component of meeting targets set forth in the Kyoto Protocol. The Showa Shell Group is making investments to meet these targets. In case where restrictions are placed in Japan on CO₂ emissions and/or fossil fuel consumption, or other environmental regulations are enacted in the future, additional investments could be needed and higher costs could be incurred. Hence, there is a possibility that the Group's financial position and operating results will be affected.

6. Risks related to termination or restriction of business as the result of disaster, accident, etc.

The Showa Shell Group has enacted a basic policy concerning health, safety, security and the environment based on the internal rule for HSSE. The Group strives to ensure safe operations and minimize disaster risk through the use of appropriate insurance, including property and casualty insurance, as well as formulation of the risk control plan and the business continuity plan with its related discipline. There is a possibility, however, that the Group's financial position and operating results will be affected, in case where each base of the Showa Shell Group, including its refineries, could encounter obstacles to operations if suffered by a unexpected disaster etc. There is also a possibility of being similarly affected by the termination or restriction of business as the result of an occurrence of a serious industrial injury or equipment-related accident, or information system failures.

7. Risks related to the internal control system

The Showa Shell Group continues to strive to strengthen compliance by means of appointment of a director in charge of Code of Conducts, enactment of internal regulations for antitrust law, establishment and operation of risk management system, and conducts internal audits. However, in cases where the internal control system built by the Group does not work effectively and compliance risk cannot be entirely avoided, there is a possibility that the trust of stakeholders will be lost and the Group's financial position and operating results be affected.

8. Risks related to intellectual property rights

In addition to competition for technological development, as intellectual property rights strategies become more important, there is a risk that disputes will occur over issues such as the violation of intellectual property rights in case where management system of intellectual property rights or defensive measures are inadequate.

9. Risks related to control of personal data

The Showa Shell Group obtains and uses personal data, including information on its customers, in relation to its businesses such as oil product sales, and has created in-house management systems for the administration of this data. The Group strives to protect such information with full attention, however there is a possibility the Showa Shell Group brand image will be damaged, and the financial position and business performance of the Group be negatively affected, in case where such data is disclosed outside the Group and misused.

10. Risk concerning retirement benefits

The Showa Shell Group's estimated pension benefit obligations and costs are calculated according to actuarial valuation method, and basic rates such as the discount rate and the expected rate of return on pension assets have been set as actuarial assumptions. In the event the actual numerical values for these basic rates differ from assumptions, or in the event the assumptions are revised, these changes could affect the amount of the pension benefit obligation and costs recognized as the effects would be cumulative and would be recognized regularly in future periods.

CONSOLIDATED BALANCE SHEET

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
As of 31 December 2008

Yen Million

	2008	2007
ASSETS		
Current assets		
Cash and deposits (Note 12)	¥ 73,113	¥ 16,479
Notes and accounts receivable—trade (Notes 12 and 14)	276,218	386,151
Inventories (Note 12)	248,088	361,738
Income taxes receivable	18,193	—
Deferred tax assets (Note 7)	18,819	10,738
Others (Note 9)	42,108	27,920
Provisions for doubtful debts	(433)	(336)
Total current assets	676,107	802,691
Fixed assets (Notes 6, 11 and 12)		
Tangible fixed assets		
Buildings and structures	112,601	114,352
Tanks	11,564	11,773
Machinery and equipment	118,426	123,934
Land	166,675	162,295
Construction in progress	20,792	3,148
Others	5,517	5,467
Total tangible fixed assets	435,579	420,972
Intangible fixed assets		
Goodwill	2,259	1,207
Leasehold	4,074	3,972
Software	4,995	5,048
Others	581	927
Total intangible fixed assets	11,910	11,155
Investments		
Investment securities (Note 4)	43,330	53,000
Long-term loans	1,551	856
Deferred tax assets (Note 7)	26,229	24,677
Others (Note 9)	17,409	26,818
Provisions for doubtful debts	(2,164)	(1,057)
Total investments	86,358	104,295
Total fixed assets	533,848	536,423
Total assets	¥1,209,956	¥1,339,114

The accompanying notes are an integral part of these financial statements.

Yen Million

	2008	2007
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade (Note 14)	¥ 231,419	¥ 387,675
Short-term debts (Notes 5, 12 and 13)	141,384	82,602
Accounts payable—other (Note 12)	204,363	201,629
Income taxes payable	4,672	22,976
Accrued expenses	12,294	14,042
Provisions for employees' bonuses	2,376	2,092
Provisions for directors' bonuses	53	63
Commercial papers (Note 5)	72,000	24,000
Others (Notes 9 and 14)	40,041	49,757
Total current liabilities	708,606	784,839
Long-term liabilities		
Bonds (Note 5)	30,200	30,000
Long-term debts (Notes 5 and 12)	35,891	46,532
Deferred tax liabilities (Note 7)	4,235	8,441
Provisions for employees' retirement benefits (Note 8)	69,560	73,888
Provisions for directors' retirement benefits	674	—
Provisions for special maintenance	17,633	12,809
Others (Note 9)	14,701	24,331
Total long-term liabilities	172,898	196,005
Total liabilities	881,504	980,845
NET ASSETS		
Shareholders' equity		
Share capital		
Authorised 440,000,000 shares		
Issued 376,850,400 shares in 2008 and 2007	34,197	34,197
Capital surplus	22,113	22,112
Retained earnings	248,589	278,251
Treasury shares		
219,446 shares as of 31 December 2008 and 216,636 as of 31 December 2007	(178)	(174)
Total shareholders' equity	304,721	334,386
Valuation and translation gains/losses		
Unrealised gains/losses on investment securities, net of income taxes	2,092	4,546
Minority interests	21,637	19,336
Total net assets	328,451	358,269
Total liabilities and net assets	¥1,209,956	¥1,339,114

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF INCOME

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Year ended 31 December 2008

	Yen Million	
	2008	2007
Net sales (Notes 14 and 15)	¥3,272,801	¥3,082,641
Cost of sales (Notes 14 and 15)	3,161,950	2,874,422
Gross profit	110,851	208,219
Sales, administrative and general expenses (Notes 6, 8, 10, 14 and 15)	123,134	119,405
Operating income/(loss)	(12,283)	88,813
Non-operating profit		
Interest income	142	159
Dividend income	750	541
Foreign exchange gain, net	2,115	3,399
Amortisation of negative goodwill	428	619
Equity in net earnings of affiliates	1,221	544
Income from investment in anonymous association	1,571	1,512
Others	1,861	2,035
	8,090	8,811
Non-operating expenses		
Interest expense	2,522	1,991
Sales discounts	2,249	1,935
Others	1,100	988
	5,872	4,915
Ordinary income/(loss)	(10,065)	92,709
Extraordinary profit		
Gain on sales of fixed assets	1,069	3,484
Gain on sales of investment securities and others (Note 4)	30	117
Reversal of provisions for special maintenance	5	12
Reversal of provisions for estimated loss on assets disposal	591	—
Promotion subsidy for corporate location	304	—
Others	412	499
	2,413	4,114
Extraordinary loss		
Loss on disposals of fixed assets	2,809	5,971
Loss on sales of investment securities and others (Note 4)	39	0
Valuation loss on investment securities and others	7,527	13
Impairment loss (Note 11)	2,976	7,505
Directors' retirement benefits	216	1,073
Loss on disposal of subsidiaries business assets	—	3,344
Others	2,191	345
	15,761	18,254
Net income/(loss) before taxes	(23,414)	78,569
Income taxes—current	5,375	36,889
Income taxes—deferred	(12,989)	(723)
	(7,613)	36,165
Income/(loss) attributable to minority interests	421	(1,325)
Net income/(loss)	¥ (16,221)	¥ 43,729

	Yen	
Per share data		
Net income/(loss)—primary	¥ (43.07)	¥116.12
Net income—diluted	Due to no diluted share, the information is omitted.	116.12
Dividend	36.00	36.00
Net assets	814.63	899.90

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Year ended 31 December 2008

	Yen Million							
	2008							
	Shareholders' equity					Valuation and translation gains/losses	Minority interests	Total net assets
Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealised gains/losses on investment securities			
Opening balance	¥34,197	¥22,112	¥278,251	¥(174)	¥334,386	¥ 4,546	¥19,336	¥358,269
Changes in the period								
Dividends			(13,561)		(13,561)			(13,561)
Net loss			(16,221)		(16,221)			(16,221)
Acquisition of treasury shares				(10)	(10)			(10)
Reissuance of treasury shares		0		6	6			6
Increase resulting from merger of consolidated subsidiaries			121		121		2,522	2,643
Increase resulting from inclusion of subsidiaries in consolidation							236	236
Net changes in items other than shareholders' equity						(2,453)	(456)	(2,910)
Total changes in the period	—	0	(29,661)	(4)	(29,665)	(2,453)	2,301	(29,817)
Closing balance	¥34,197	¥22,113	¥248,589	¥(178)	¥304,721	¥ 2,092	¥21,637	¥328,451

	Yen Million							
	2007							
	Shareholders' equity					Valuation and translation gains/losses	Minority interests	Total net assets
Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealised gains/losses on investment securities			
Opening balance	¥34,197	¥22,111	¥248,108	¥(422)	¥303,995	¥5,416	¥21,544	¥330,956
Changes in the period								
Dividends			(13,555)		(13,555)			(13,555)
Net income			43,729		43,729			43,729
Acquisition of treasury shares				(11)	(11)			(11)
Reissuance of treasury shares		1		259	260			260
Change in interest in a consolidated subsidiary			296		296	7	(478)	(174)
Decrease resulting from inclusion of a subsidiary in consolidation			(327)		(327)			(327)
Net changes in items other than shareholders' equity						(878)	(1,730)	(2,608)
Total changes in the period	—	1	30,142	247	30,391	(870)	(2,208)	27,312
Closing balance	¥34,197	¥22,112	¥278,251	¥(174)	¥334,386	¥4,546	¥19,336	¥358,269

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Year ended 31 December 2008

Yen Million

	2008	2007
Cash flow from operating activities		
Net income/(loss) before taxes	¥ (23,414)	¥ 78,569
Depreciation	31,239	26,708
Impairment loss	2,976	7,505
Loss on disposals of fixed assets	2,809	5,971
Gain on sales of fixed assets	(1,069)	(3,484)
Valuation loss on investment securities and others	7,527	13
Directors' retirement benefits	216	1,073
Loss on disposal of subsidiaries business assets	—	3,344
Increase/(decrease) in provisions for doubtful debts	(136)	(195)
Increase/(decrease) in provisions for directors' retirement benefits	548	—
Increase/(decrease) in provisions for employees' retirement benefits	(5,375)	(4,682)
Increase/(decrease) in provisions for special maintenance	4,824	1,456
Interest and dividend income	(892)	(700)
Interest expense	4,771	3,926
(Increase)/decrease in accounts receivable	118,523	(59,850)
(Increase)/decrease in inventories	116,940	(84,883)
Increase/(decrease) in accounts payable	(167,753)	91,460
Others	(19,431)	5,581
Sub total	72,307	71,816
Interests and dividends received	887	696
Interests paid	(4,852)	(3,881)
Income taxes paid	(41,711)	(23,835)
Cash flow from operating activities	26,631	44,796
Cash flow from investing activities		
Payments for purchase of tangible fixed assets	(37,606)	(23,617)
Payments for purchase of intangible fixed assets	(2,427)	—
Proceeds from sales of fixed assets	1,901	4,668
Payments for purchase of investment securities	(1,116)	(1,170)
Proceeds from sales of investment securities	107	268
Net (increase)/decrease in short-term loans	(2,641)	(2,504)
Payments for long-term loans	(885)	(72)
Proceeds from collection of long-term loans	15	6
Proceeds from share acquisition of consolidated subsidiaries	161	—
Others	(440)	(3,267)
Cash flow from investing activities	(42,932)	(25,687)
Cash flow from financing activities		
Net increase/(decrease) in short-term debts	43,327	34,281
Net increase/(decrease) in commercial papers	48,000	(44,000)
Proceeds from long-term debts	—	10,000
Repayments of long-term debts	(4,732)	(7,673)
Payments for purchase of treasury shares	(10)	(11)
Dividends paid	(13,561)	(13,555)
Dividends paid to minority shareholders of subsidiaries	(692)	(330)
Others	6	260
Cash flow from financing activities	72,337	(21,029)
Change in cash and cash equivalents	56,035	(1,920)
Cash and cash equivalents at beginning of year	15,686	16,541
Increase in cash and cash equivalents from newly consolidated subsidiaries	93	1,066
Cash and cash equivalent at end of year	¥ 71,815	¥ 15,686

Reconciliation between cash and cash equivalents at year-end and cash and deposit on the balance sheet

Yen Million

	2008	2007
Cash and deposits on the balance sheets	¥73,113	¥16,479
Time deposit exceeding 3 months	(1,298)	(792)
Cash and cash equivalents	¥71,815	¥15,686

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying consolidated financial statements of Showa Shell Sekiyu K.K. (the "Company") and its consolidated subsidiaries (together, the "Companies") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Financial Instruments and Exchange Act, fractions below one million yen are rounded off. It causes the totals in the financial statements are not equivalent to the sums of each item.

2. Summary of Significant Accounting Principles

(1) Principles of Consolidation

a) Consolidated subsidiaries of 31 December 2008: (40 companies)

Showa Yokkaichi Sekiyu Co., Ltd.	Toa Oil Co., Ltd.	Showa Shell Sempaku K.K.
Nippon Grease Co., Ltd.	Shoseki Kako Co., Ltd.	Heiwa Kisen Kaisha, Ltd.
Shoseki Overseas Oil Development Co., Ltd.	Petro Star Kansai Co., Ltd.	Chuo Shell Sekiyu Hanbai K.K.
Kanto Koyu Energy Co., Ltd.	Nakagawa Oil Co., Ltd.	Tokyo Shell Pack K.K.
Petro Star Kanto Co., Ltd.	K.K. Sun Road	K.K. Shinyo Sekiyu
K.K. Marushin	K.K. Rising Sun	Shoseki Engineering & Construction Co., Ltd.
Wakamatsu Gas K.K.	Genex Co., Ltd.	Central Energy K.K.
Nissho Koyu K.K.	On-Site Power Co., Ltd.	Showa Shell Solar Co., Ltd.
Nagase Oil Ltd. ⁽¹⁾	Jonen Co. ⁽¹⁾	Enessance Holdings Co., Ltd. ⁽²⁾
Other 13 companies		

⁽¹⁾ Nagase Oil Ltd. and Jonen Co., which became subsidiaries of the Company by share acquisition in the current financial year, have been newly included in the consolidation.

⁽²⁾ As a part of LPG business integration and reorganisation, Enessance Holdings Co., Ltd. and its 11 subsidiaries have been newly included in the consolidation. Shoseki Gas Co., Ltd. and Shoseki Home Gas K.K., which became subsidiaries of Enessance Holdings Co., Ltd. in the course of the LPG business reorganisation, have been continuously included in consolidation.

East Ogishima Oil Terminal Co., Ltd. that had been included in consolidation until the previous financial year, merged with Toa Oil Co., Ltd. on 1 March 2008 that is a consolidated subsidiary of the Company.

Certain subsidiaries, such as K.K. Hayawa, are excluded from consolidation because their influence is immaterial to the consolidated financial statements.

b) Account closing dates

Account closing dates of the consolidated subsidiaries are as follows.

30 June	1 subsidiary
30 September	8
31 October	1
31 December	30

For the subsidiary with an account closing date of 30 June, the accounts for the twelve-month period ended 30 September are used for the consolidation.

For other subsidiaries of which the account closing dates are other than 31 December, annual financial statements for the periods ended their own account closing dates are used for the consolidation. Material differences arising from the use of different account closing dates are appropriately adjusted in consolidation procedures.

(2) Equity-method Affiliates

Equity-method Affiliates as of 31 December 2008: (12 companies)

Seibu Oil Co., Ltd.	Toyotsu Petrotex Co.	Niigata Joint Oil Stockpiling Co., Ltd.
Japan Oil Network Co., Ltd.	Joyo Shell Sekiyu Hanbai K.K.	Marubeni Energy Corporation
Central Sekiyu Gas Co., Ltd.	Mieseiki Shoji K.K.	Shell Sekiyu Osaka Hatsubaisho K.K.
Shell Tokuhatsu K.K.	Diashoseki Co. Ltd.	TS Aromatics Ltd.

TS Aromatics Ltd. has included in the scope of equity-method affiliates from this financial year because of share acquisition.

Certain 20% to 50% owned companies, such as K.K. Kyokuyo, are excluded from equity-method affiliates because their influence is immaterial to the consolidated financial statements.

(3) Valuation Method for Major Assets

a) Securities:

Securities with market value are stated at market value. Net unrealised gains or losses on these securities are reported as a component of the net assets in after-tax amount. Cost of securities sold is calculated primarily by the moving average method.

Securities with no market value are stated at historical cost, based on the moving average method.

b) Derivatives:

Derivatives are stated at market value.

c) Inventories:

Inventories are stated at historical cost, mainly based on the weighted average method.

(4) Depreciation and Amortisation of Major Assets

a) Tangible fixed assets:

Straight-line method is adopted. The same standard as stipulated in the Corporate Tax Law is applied to the useful economic lives and the residual values. The main refining facilities at the Ohgimachi Factory of the Keihin Refinery of the Company and the Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd. are depreciated with estimated useful economic lives of 20 years.

b) Intangible fixed assets:

Straight-line method is adopted. Software for in-house use is amortised based on the straight-line method over the expected useful economic life of 5 years.

(5) Basis of Provisions

a) Provisions for doubtful debts:

For doubtful debts, provisions are calculated individually based on the estimated uncollectible amounts. For other debts, provisions are calculated based on the actual ratio of the past doubtful debt losses.

b) Provisions for employees' bonuses:

Accrued bonuses for the current financial year are provided based on the estimated bonuses to be paid in the following year.

c) Provisions for directors' bonuses:

For directors' bonuses, provisions are calculated based on the estimated bonuses to be paid in the following year.

d) Provisions for employees' retirement benefits:

Accrued retirement benefits are provided based on the estimated PBO and pension assets as at the current financial year-end. Actuarial differences are amortised evenly within the following 13–14 years, which is the average number of remaining service years of employees. The past service liabilities are amortised evenly within 14 years, which was the average number of remaining service years of employees at occurrences. Differences due to changes in the accounting standards are amortised evenly over the following 15 years, which was the average number of remaining service years of employees at that time.

e) Provisions for directors' retirement benefits:

Estimated retirement benefits for directors for the current financial year are provided based on the internal rules of some consolidated subsidiaries.

f) Provisions for special maintenance:

Estimated accrued expenses on inspections and maintenances on refining machineries and oil tanks are provided. Periodical inspections on oil tanks are required under the Fire Service Act.

(6) Accounting for Leases

Finance leases, in which ownership of the leased assets is not transferred to the lessees, are treated in the same way as operating leases.

(7) Hedge Accounting

Hedge accounting is not adopted.

(8) Consumption Tax

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services is not included in revenue and cost or expense items respectively in the accompanying consolidated statements of income.

(9) Valuation Method for Assets and Liabilities of Subsidiaries

Assets and liabilities of subsidiaries are measured at the market values when consolidated.

(10) Amortisation of Goodwill and Negative Goodwill

Goodwill and negative goodwill are amortised evenly over a period not exceeding 20 years, which is determined in consideration of its causes. Goodwill is expensed in the year it arises when it is immaterial.

(11) Appropriation of Retained Earnings

Under the Companies Act of Japan, the appropriation of retained earnings on the current financial year is determined by resolution of shareholders meeting held after the financial year-end. Therefore the appropriation of the retained earnings for the current financial year is not reflected in the accounts of the current financial year.

(12) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows consists of cash-in-hand, deposits readily convertible into cash, and short-term investments with low risk of price fluctuations and with a maturity of 3 months or less at the time of acquisition.

(13) Reclassification

Certain comparative accounts in the consolidated financial statements for the year ended 31 December 2007 have been reclassified to conform to the 2008 presentation.

3. Change in Accounting Policies**(1) Provisions for Directors' Retirement Benefits**

Certain subsidiaries changed their accounting method for directors' retirement benefits in line with the opinion note of JICPA issued on 13 April 2007. Previously, costs for directors' retirement benefits at such subsidiaries had been recorded when paid. Effective from the current financial year, estimated costs based on the internal rules are provided as provisions for directors' retirement benefits. The effects of this change in accounting policy are immaterial to the consolidated financial statements.

(2) Depreciation Method for Fixed Assets

The Company and its subsidiaries have changed their depreciation methods for the fixed assets acquired on or before 31 March 2007 due to the amendments in the income tax regulations. Previously, the 5% residual values of the acquisition costs had not been charged to income until those are disposed. Effective from the current financial year, such 5% amounts have been depreciated equally over 5 years once the carrying amount of depreciable fixed assets reached 5% of the acquisition costs. Due to this change in depreciation method, operating loss, ordinary loss and net loss before taxes increased by 4,222 million yen as compared to those which would have been reported under the previous depreciation method.

4. Securities**(1) Investment Securities**

	Yen Million	
	2008	2007
Securities	¥12,650	¥24,489
Securities investments in non-consolidated subsidiaries and affiliates	30,680	28,510
	¥43,330	¥53,000

(2) Securities with Market Value

	Yen Million		
	Historical	2008	
		Market value	Unrealised gain (loss)
Securities with unrealised gains:			
Equity securities	¥1,551	¥4,896	¥3,344
Securities with unrealised losses:			
Equity securities	3,358	3,160	(198)

	Yen Million		
	Historical	2007	
		Market value	Unrealised gain (loss)
Securities with unrealised gains:			
Equity securities	¥ 2,081	¥10,468	¥ 8,386
Securities with unrealised losses:			
Equity securities	10,047	8,396	(1,650)

(3) Securities Sold

	Yen Million	
	2008	2007
Proceeds from sales of securities during the year	¥93	¥141
Realised gains	25	75
Realised losses	39	0

(4) Securities with No Market Value

	Yen Million	
	2008	2007
Unquoted securities		
Equity Securities	¥4,578	¥5,609
Debt Securities	15	15
	¥4,594	¥5,624

5. Short-term and Long-term Debts

(1) Short-term Debts

	Yen Million	
	2008	2007
Short-term debts	¥128,497	¥ 77,870
Commercial papers	72,000	24,000
	¥200,497	¥101,870

Note: The weighted average interest rates on short-term debt outstanding of the year-end were as follows:

	%	
	2008	2007
Short-term debts	0.61	0.35
Commercial papers	1.25	0.73

(2) Long-term Debts

	Yen Million	
	2008	2007
Loans from banks, other financial institutions, etc.		
Due from 2009 to 2015	¥48,779	¥51,265
0.71 per cent unsecured straight bond due in 2010	15,000	15,000
1.09 per cent unsecured straight bond due in 2011	100	—
1.03 per cent unsecured straight bond due in 2011	100	—
1.66 per cent unsecured straight bond due in 2013	15,000	15,000
	78,979	81,265
Less: due within one year	12,887	4,732
	¥66,091	¥76,532

Note: The weighted average interest rate on long-term debt (excluding the one due in 1 year) from banks outstanding as of 31 December 2008 and 2007 were 1.74% and 1.68%, respectively.

Annual maturities of bonds

	Yen Million	
	2008	
Within one year	¥ —	
More than one year less than two years	15,000	
More than two years less than three years	200	
More than three years less than four years	—	
More than four years less than five years	15,000	
More than five years	—	
	¥30,200	

Annual maturities of long-term debts, (excl. bonds)

	Yen Million
	2008
Within one year	¥12,887
More than one year less than two years	7,795
More than two years less than three years	459
More than three years less than four years	10,159
More than four years less than five years	3,263
More than five years	14,213
	¥48,779

(3) Commitment-line Contacts

The Company concludes a revolving credit contract available up to 140 billion yen with a banking syndicate and overdraft contract up to 10 billion yen with Mizuho Corporate Bank Ltd.

There was no balance as at 31 December 2008 under these contracts.

6. Lease Transactions

(1) Lessee

a) Finance leases

Finance leases, excluding those for which the ownership of the leased assets is considered to be transferred to the lessee, as of, and for the years ended 31 December 2008 and 2007.

	Yen Million			
	2008			
	Acquisition Costs	Accumulated Depreciation	Accumulated Impairment loss	Balance
Buildings, structures and tanks	¥ 333	¥ 290	¥ —	¥ 42
Machinery and equipment	7,821	2,713	143	4,965
Tools, implements and fixtures	3,062	1,259	—	1,802
Intangible fixed assets	438	249	—	188
	¥11,655	¥4,512	¥143	¥7,000

	Yen Million			
	2007			
	Acquisition Costs	Accumulated Depreciation	Accumulated Impairment loss	Balance
Buildings, structures and tanks	¥ 315	¥ 254	¥ —	¥ 60
Machinery and equipment	12,790	4,761	3,754	4,273
Tools, implements and fixtures	2,472	931	—	1,541
Intangible fixed assets	38	13	—	24
	¥15,616	¥5,961	¥3,754	¥5,900

Lease payments and depreciation for the years ended 31 December 2008 and 2007 amounted to 1,408 million yen and 1,498 million yen, respectively. Depreciation is calculated by the straight-line method over the lease term of the leased assets assuming no residual value.

Scheduled maturities of future lease payments of finance leases as of 31 December 2008 and 2007

	Yen Million	
	2008	2007
Due within one year	¥ 3,629	¥ 2,897
Due over one year	10,218	9,382
	¥13,847	¥12,279

b) Operating leases

	Yen Million	
	2008	2007
Due within one year	¥209	¥102
Due over one year	479	113
	¥688	¥215

(2) Lessor

Finance leases

Scheduled maturities of future lease payments of finance leases as of 31 December 2008 and 2007

	Yen Million	
	2008	2007
Due within one year	¥2,070	¥1,809
Due over one year	4,777	4,569
	¥6,847	¥6,379

Note: They are sublease transactions.

7. Income Taxes

(1) Temporary differences that compose deferred tax assets and liabilities

	Yen Million	
	2008	2007
Deferred tax assets:		
Provisions for employees' retirement benefits	¥ 31,218	¥ 31,624
Impairment loss on fixed assets	15,002	16,448
Net loss carried forward	11,827	—
Valuation loss on investment securities and others	4,008	824
Provisions for doubtful debts	559	205
Others	17,927	20,278
Sub-total	80,543	69,382
Valuation reserve	(21,282)	(19,607)
Total deferred tax assets	¥ 59,261	¥ 49,775
Deferred tax liabilities:		
Reserve for advanced depreciation on fixed assets transaction	¥ (9,901)	¥ (9,788)
Unrealised gain on investment securities	(1,286)	(2,619)
Others	(7,260)	(10,393)
Total deferred tax liabilities	(18,448)	(22,801)
Net deferred tax assets/(liabilities)	¥ 40,813	¥ 26,974

(2) Reconciliation between the effective statutory tax rate and the actual tax rate

	%	
	2008	2007
Effective statutory tax rate	40.7	40.7
(Adjustments)		
Entertainment expense and others that are not deductible permanently	(1.8)	0.5
Dividend income and others that are not taxable permanently	0.6	(1.1)
Increase/(decrease) in valuation reserves	(6.5)	6.1
Inhabitant tax on per capita basis	(0.6)	0.2
Others	0.1	(0.4)
Actual tax rate	32.5	46.0

8. Provisions for Employees' Retirement Benefits

The companies operate various kinds of retirement benefit plans, such as contributory pension plan, qualified pension and severance payment plan.

(1) Provisions for employees' retirement benefits

	Yen Million	
	2008	2007
Retirement benefit obligations	¥(104,966)	¥(104,352)
Pension assets	23,034	21,675
Unfunded retirement benefit obligations	(81,932)	(82,677)
Unrecognised actuarial differences	12,091	8,448
Unrecognised past service cost (reduction in obligations) (Note 1)	(453)	(510)
Unrecognised transition differences due to accounting changes	733	850
	¥ (69,560)	¥ (73,888)

Notes: 1. A past service obligation (decrease in obligations) arose because a consolidated subsidiary using the general accounting method changed its plan by reducing the benefit level in its lump-sum retirement scheme.

2. The Company's retirement benefit scheme includes three consolidated subsidiaries.

3. The simple method is used for calculating retirement benefit obligations, except the Company and two of the consolidated subsidiaries.

4. In-house pension schemes are mainly those in which employees retiring at retirement age or voluntarily at above the age of 55 contribute 50% of their retirement benefits to their company, which then pays it out over 180 months or until the death of the pensioners.

5. The Company has introduced a new retirement benefit system in which employees choose from a scheme for advance cash payment of retirement allowance and pension (full payment of retirement allowance and pension equivalent amount included in salary), and a lump-sum retirement benefit scheme; the benefit obligations of employees choosing the lump-sum scheme are also included.

6. Employee pension trust has been set since this financial year.

(2) The net periodic pension expense related to the retirement benefits

	Yen Million	
	2008	2007
Service cost	¥2,495	¥2,274
Interest cost	2,493	2,535
Expected return on pension assets	(783)	(667)
Amortisation of unrecognised actuarial differences	1,175	1,181
Amortisation of unrecognised past service costs	(57)	(57)
Amortisation of unrecognised transition differences due to accounting changes	117	117
	¥5,441	¥5,384

Note: The retirement benefit costs of consolidated subsidiaries that use a simple method are included in "Service cost."

(3) Assumptions used in calculation of the above information

	As of 31 December 2008	As of 31 December 2007
Allocation method for retirement benefit expenses	Periodical straight line	Periodical straight line
Discount rate	2.5%	2.5%
Expected rate of return	3.7%	3.7%
Period for amortisation of past service cost	14 years	14 years
Period for amortisation of actuarial differences	13-14 years	13-14 years
Period for amortisation of transition differences due to accounting changes	15 years	15 years

9. Derivatives

(1) Conditions of Transactions

In the normal course of business, the Companies use derivatives to manage their exposures to market risks in compliance with their internal policies.

The Companies do not use derivatives for speculative purposes. These instruments include foreign exchange contracts, foreign currency options, interest rate swaps, futures, forward contracts and options of crude oil, oil products and tanker freight.

All such derivatives involve risks, including the credit risk of non-performance by counterparties. However, in order to minimise the credit risk of non-performance by counterparties, the Companies deal these derivatives with major financial institutions and trading companies with a high credit rating.

(2) Current Value of Derivatives

	Yen Million		
	31 December 2008		
	Notional Amount	Market Value	Unrealised Gain
Foreign currency contracts			
To buy (US\$)	¥38,211	¥38,302	¥ 90
(Euro)	1,388	1,405	16
To sell (US\$)	14,884	14,454	429
(Euro)	414	405	9
			¥ 545
Commodity-related transactions			
To buy	¥ 3,535	¥ 4,443	¥ 907
To sell	5,833	4,913	919
			¥1,826

	Yen Million		
	31 December 2007		
	Notional Amount	Market Value	Unrealised Gain/(Loss)
Foreign currency contracts (US\$)			
To buy	¥122,457	¥123,823	¥ 1,365
To sell	15,091	15,484	(392)
			¥ 973
Commodity-related transactions			
To buy	¥ 4,820	¥ 16,721	¥11,900
To sell	3,083	3,062	21
			¥11,921

Interest rate swaps, which meet specific matching criteria are not measured at market value although the net amount to be paid or received under the swap contracts is recognised and included in interest expenses or income. As at 31 December 2008, there was no interest rate swap contract.

10. Sales, Administrative and General Expenses

Major elements of sales, administrative and general expenses for the years ended 31 December 2008 and 2007

	Yen Million	
	2008	2007
Transportation	¥ 44,697	¥ 45,271
Salaries	31,676	30,095
Rents	5,486	4,749
Depreciation	5,890	5,007
Research and development expenses	2,233	2,014
Others	33,149	32,267
	¥123,134	¥119,405

11. Impairment Loss of Fixed Assets

As a minimum unit for generating cash flows, service stations were assessed individually, and other fixed assets were grouped by segments of management accounting. Assets used for rent and non-performing assets were assessed individually in principle.

Recoverable value was assessed comparing net selling price and value in use. Net selling price was mainly adopted for non-performing assets and value in use for other assets. Net selling prices, if material, were assessed according to the property appraisal standards. To calculate value in use, the future cash flows were discounted at 7.0% (6.5% in 2007).

Impairment loss was recorded at the amount by which the carrying amount of each asset group exceeded its recoverable value. For the year ended 31 December 2008, the Companies recognised impairment loss of 2,976 million yen on 71 groups of impaired fixed assets, which were accounted for as extraordinary loss. They were primarily related to the significant decrease in the market value of the Companies' land as well as to the overall deterioration of their business environment. They consisted of the following:

	Yen Million		
	Land	Others	Total
	2008		
Service stations (38 groups)	¥1,787	¥392	¥2,180
Idle assets (33 groups)	58	737	796
			¥2,976

	Yen Million			
	Land	Lease assets	Others	Total
	2007			
Service stations (20 groups)	¥943	¥ —	¥ 378	¥1,321
Idle assets (72 groups)	34	3,689	2,458	6,183
				¥7,505

12. Collateral Assets and Secured Debts

(1) Collateral Assets

	Yen Million
	2008
Cash & deposits	¥ 3,756
Notes & accounts receivable	1,654
Inventories	74
Buildings & structures	21,225
Tanks	4,524
Machinery & equipment	89,069
Land	42,273
Others	9
Total	¥162,587

(2) Secured Debts

	Yen Million
	2008
Long-term debts	¥11,146
Short-term debts	6,226
Accounts payable	65,581
Total	¥82,955

13. Contingent Liabilities

The Companies had the following contingent liabilities as of 31 December 2008 and 2007:

	Yen Million	
	2008	2007
Guarantees for:		
Non-consolidated subsidiaries, affiliates and other companies	¥2,280	¥3,685
Employees (housing loan)	1,026	1,197
Discounts of notes receivable	38	—
	¥3,345	¥4,883

The Company is subject to legal proceedings claims and liabilities which arise in the ordinary course of business. In the opinion of management, the amount of the ultimate liability with respect to those actions will not materially affect the Company's financial position or results of operations and cash flows.

14. Related Party Transactions

When transactions of the Company with its related parties are more than 10% of the consolidated sales proceeds, or 10% of the total amount of the consolidated cost of sales and sales administrative and general expenses, for the years ended 31 December 2008 and 2007 are disclosed by each item.

The Company discloses material balances and transactions with related parties where such balances and transactions represent more than 1% of the consolidated total assets.

(1) Related Parties—Corporation

For the year ended 31 December 2008

Name	Capital (Yen Million)	Voting right share owing (share owned)	Yen Million			
			Transactions		Closing balances	
Saudi Arabian Oil Co., Ltd.	¥ —	(Indirect 15.0%)	Purchase of crude oil and oil products	¥1,068,566	Accounts payable (trade)	¥28,560
Seibu Oil Co., Ltd.	8,000	Direct 38.0%	Purchase of oil products	501,850	Accounts payable (trade)	43,281
Marubeni Energy Corporation	2,350	Direct 33.4%	Sale of oil products	189,831	Accounts receivable (trade)	12,430
Shell Chemicals Japan Ltd.	250	NA	Sales and purchase of oil products/purchase of petrochemicals	300,167	Accounts receivable (trade)	13,984

For the year ended 31 December 2007

Name	Capital (Yen Million)	Voting right share owing (share owned)	Yen Million			
			Transactions		Closing balances	
Saudi Arabian Oil Co., Ltd.	¥ —	(Indirect 15.0%)	Purchase of crude oil and oil products	¥886,713	Accounts payable (trade)	¥88,173
Seibu Oil Co., Ltd.	8,000	Direct 38.0%	Purchase of oil products	358,792	Accounts payable (trade)	47,851
			Joint procurement of crude oil	—	Accounts receivable (trade)	28,319
Marubeni Energy Corporation	2,350	Direct 33.4%	Sale of oil products	184,914	Accounts receivable (trade)	19,687
Shell Chemicals Japan Ltd.	250	NA	Sales and purchase of oil products/purchase of petrochemicals	135,883	Accounts receivable (trade)	25,925
Shell Eastern Trading (P.T.E.) Limited	714	NA	Sales and purchase of crude and oil products	307,564	Accounts payable (trade)	9,756

Notes: 1. The prices of crude oil and oil products are determined by negotiations in consideration of market prices.
2. Consumption tax is not included.

(2) Related Parties—Individuals

Material transactions and balances of the Company with related individuals, including shareholders and directors, representing more than 1 million yen for the years ended 31 December 2008 and 2007 are as follows.

For the year ended 31 December 2008

Not applicable

For the year ended 31 December 2007

Name	Post	Voting right share owing (share owned)	Yen Million			
			Transactions		Closing balances	
Haruyuki Niimi	Chairman of SSSKK, Head Director of Showa Shell Sekiyu, Foundation for Promotion of Environmental Research	—	Donation	¥13	—	—

Note: Consumption tax is not include.

15. Segment Information

(1) Business Segment Information For the year ended 31 December 2008

	Yen Million					
	Oil business	Property business	Other business	Sub-total	Internal trade	Total
I. Sales and operating profits						
Sales						
(1) Sales to customers	¥3,236,069	¥ 4,288	¥32,444	¥3,272,801	¥ —	¥3,272,801
(2) Inter-segment sales and transfers	5,336	123	7,148	12,608	(12,608)	—
Sales	3,241,405	4,412	39,592	3,285,410	(12,608)	3,272,801
Operating expenses	3,257,727	1,519	38,409	3,297,656	(12,571)	3,285,084
Operating income/(loss)	(16,321)	2,892	1,182	(12,246)	(37)	(12,283)
II. Assets, depreciation, impairment, and capital expenditures						
Assets	¥1,170,226	¥29,804	¥55,597	¥1,255,628	¥(45,672)	¥1,209,956
Depreciation	27,357	843	3,039	31,239	—	31,239
Impairment loss	2,976	—	—	2,976	—	2,976
Capital expenditures	23,528	107	16,686	40,323	—	40,323

For the year ended 31 December 2007

	Yen Million					
	Oil business	Property business	Other business	Sub-total	Internal trade	Total
I. Sales and operating profits						
Sales						
(1) Sales to customers	¥3,047,065	¥ 4,270	¥31,306	¥3,082,641	¥ —	¥3,082,641
(2) Inter-segment sales and transfers	5,811	125	7,217	13,154	(13,154)	—
Sales	3,052,876	4,396	38,523	3,095,796	(13,154)	3,082,641
Operating expenses	2,968,310	1,539	37,112	3,006,962	(13,134)	2,993,828
Operating income	84,566	2,856	1,411	88,833	(19)	88,813
II. Assets, depreciation, impairment, and capital expenditures						
Assets	¥1,297,407	¥30,394	¥53,564	¥1,381,367	¥(42,252)	¥1,339,114
Depreciation	23,262	807	2,637	26,708	—	26,708
Impairment loss	2,107	—	5,398	7,505	—	7,505
Capital expenditures	22,603	76	3,155	25,835	—	25,835

Notes: 1. Businesses are classified based on the companies' internal definition.

2. Main products and businesses by each segment

(1) Oil business: Gasoline, naphtha, kerosene, diesel oil, fuel oil, lubricants, LP gas, asphalt, petrochemical products

(2) Property business: Leasing and administration of properties

(3) Other businesses: Engineering, sale and lease of automobile accessories, city gas business, electric power supply business and distributed power supply, solar powered cells business etc.

3. "Internal trade" did not include any operating expenses that could not be allocated.

4. Corporate assets are fully allocated to each segment and not included in assets in "Internal trade."

5. Long-term prepaid expenses and their depreciation are included in depreciation, impairment loss and capital expenditures.

(2) Geographic Segment Information

For the years ended 31 December 2008 and 2007, geographic segment information has been omitted as the Companies have no consolidated subsidiaries or branches domiciled in countries or regions other than Japan.

(3) Overseas Sales

For the year ended 31 December 2008

Disclosure on this information is omitted because overseas sales has become less than 10% of consolidated sales proceeds due to the transfer of international trading business from 1 August 2007.

For the year ended 31 December 2007

	Yen Million		
	Asia	Others	Total
Overseas sales	¥189,705	¥119,320	¥ 309,026
Consolidated sales			3,082,641
Overseas sales as a percentage of total consolidated sales	6.2%	3.9%	10.0%

Notes: 1. Countries and regions are classified on the basis of geographic proximity.

2. Main countries included in each geographic segment are as follows;

(1)Asia Singapore, Republic of Korea, Hong Kong

(2)Others ... U.A.E., U.S.A., United Kingdom

3. Overseas sales are sales of the Company and its consolidated subsidiaries outside Japan.

4. Overseas sales regarding international trading business decreased by 104,049 million yen compared with the previous financial year, mainly because the Company has leased it to the Shell group since 1 August 2007.



PricewaterhouseCoopers Aarata
Shin-Marunouchi Bldg., 32nd Floor
1-5-1 Marunouchi
Chiyoda-ku, Tokyo 100-6532
Japan
Telephone : +81 (3) 5427 6555
Facsimile : +81 (3) 5427 6556
www.pwc.com/jp/aarata

Report of Independent Auditors

27 March 2009

To the Board of Directors of SHOWA SHELL SEKIYU K.K.

We have audited the accompanying consolidated balance sheet of SHOWA SHELL SEKIYU K.K. ("the Company") and its subsidiaries as of 31 December 2008, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of 31 December 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As explained in the note 3 (2) to the consolidated financial statements, the Company and its subsidiaries changed their depreciation methods for fixed assets acquired on or before 31 March 2007.

A handwritten signature in black ink that reads "PricewaterhouseCoopers Aarata". The signature is written in a cursive, flowing style.

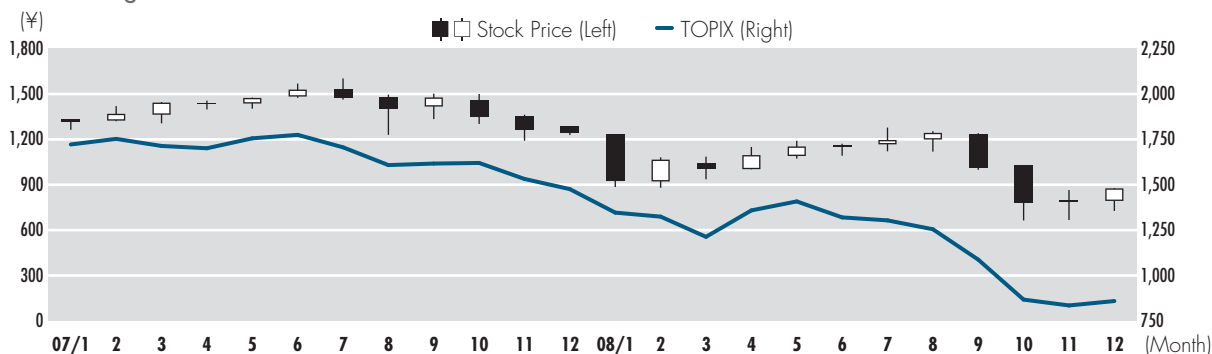
INVESTOR INFORMATION

As of 31 December 2008

Date of Establishment:	1 January 1985
Authorized Number of Shares:	440,000,000 shares
Number of Shares Issued:	376,850,400 shares
Paid-in Capital:	¥34,197,585,900
Number of Employees:	979
Total Number of Service Stations:	4,305
Number of Shareholders:	50,555
Securities Listings:	Tokyo Stock Exchange
Ticker Code:	5002
Transfer Agent:	Mizuho Trust & Banking Co., Ltd. 1-2-1, Yaesu, Chuo-ku, Tokyo 103-0028, Japan
Independent Auditors:	PricewaterhouseCoopers Aarata
General Shareholders' Meeting:	March

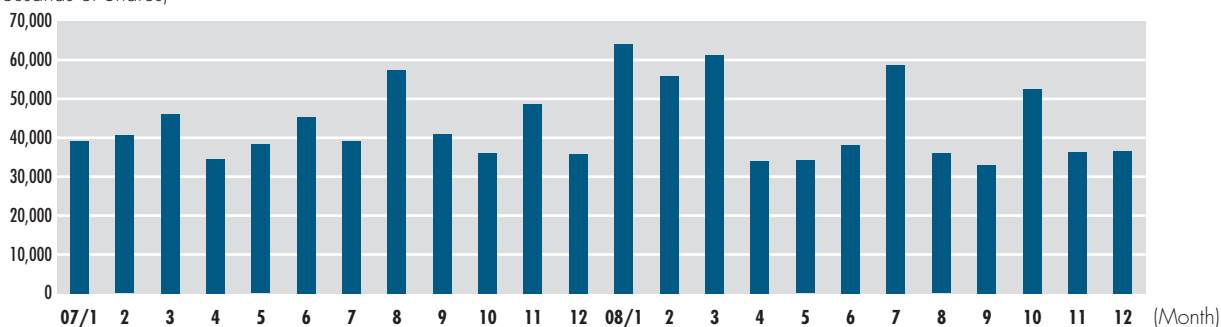
Major Shareholders	Number of shares held (thousand)	Percentage of total common shares outstanding
The Shell Petroleum Co., Ltd.	125,261.2	33.24%
Aramco Japan Holdings Company B.V.	56,380.0	14.96
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,451.3	4.90
Japan Trustee Services Bank, Ltd. (Trust Account)	15,405.1	4.09
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	8,450.6	2.24
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	7,322.1	1.94
The Anglo-Saxon Petroleum Co., Ltd.	6,784.0	1.80
Morgan Whitefriars Equity Derivatives	4,816.0	1.28
Kochi Shinkin Bank	4,412.0	1.17
Kawasaki Kisen Kaisha, Ltd.	3,503.7	0.93
Total	250,786.0	66.55

Stock Price Range



Monthly Trading Volume

(Thousands of Shares)



Showa Shell Sekiyu K.K.

Daiba Frontier Bldg., 2-3-2, Daiba, Minato-ku, Tokyo 135-8074, Japan
Tel: +81-3-5531-5591
<http://www.showa-shell.co.jp/>



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