

Innovation through our New Foundation programme

The year 2005 was the first year for implementation of our New Foundation programme to accomplish our goals of increasing the value of our core businesses, expanding the scale of our core businesses, and developing new and peripheral businesses. We took our first steps toward the employment of a more proactive approach to management.

We have successfully implemented several projects aimed at the improvement of core competencies in our production and marketing capabilities. As a result, for the first time in 10 years, the amount of investment has substantially surpassed our depreciation cost on a consolidated basis, reflecting our adoption of management strategies aiming to recover the growth track.

Developing new and peripheral businesses

We will undertake development of new products and services in core-related businesses, and then commercialize these new products and services. Showa Shell will endeavor to supply diverse forms of energy, while simultaneously creating new business models by responding to customers' potential needs, through its home solutions business, for example.

- Began supplying GTL (Gas-to-Liquids), a new fuel synthesized from natural gas, marking a first for the Japanese market (p. 9; environmentally friendly)
- Commenced commercial production of a next-generation CIS (copper-indium-diselenide) photovoltaic modules (p. 9; new energy development)
- Obtained the gas business of Wakamatsu Gas K.K. and Wakamatsu Gas Nenryo Kiki K.K. through the transfer of their goodwill and business assets to the Company's wholly-owned subsidiary (p. 7; development of peripheral businesses)

Increasing the value of our core businesses

In our core businesses (the refining, distribution and sale of petroleum products), we will continue efforts to further reduce costs. We will make renewed efforts to improve operational efficiency, by resolving bottlenecks that arise anywhere between the crude oil procurement and product distribution stages, and thereby achieve greater profitability.

- Unveiled our corporate message (p. 9; brand strategy)
- Expansion in sales area for *Shell Pura* high-octane gasoline, to strengthen sales capabilities
- Raised Saudi Aramco's equity stake to 14.96% (p. 5) to ensure a stable supply of crude oil
- Equity participation in Toyotsu Sekiyu Hanbai K.K. (p. 7) to strengthen sales capabilities
- Equity participation in AOC Holdings Inc. (p. 6) to expand petroleum refining capacity and reduce costs
- Toa Oil Co., Ltd. made a specified subsidiary (p. 7) to boost petroleum refining capacity
- Construction of equipment to produce mixed xylene (to strengthen petroleum refining capabilities)

Expanding the scale of our core businesses

We are considering to expand the scope of our core businesses through, for instance, M&A and strategic partnerships. By strengthening procurement capabilities for crude oil, as well as refining, distribution and sales capabilities for petroleum products, we expect to be able to distribute products through a more efficient marketing network, and thereby post increased sales.