

REVIEW OF OPERATIONS

PETROCHEMICAL (FEEDSTOCKS)



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Overview of the Business Operations

At Showa Shell we produce various basic materials for petrochemicals as complementary products from crude oil, and our three main products are mixed xylene, propylene, and benzene.

Demand for these products is solid. In particular, the market for paraxylene, derived from mixed xylene, is growing rapidly as demand for polyester in Asia increases. In 2006, production of paraxylene in Japan was said to be about 3.36 million tons while domestic demand was 1.07 million tons. During the first half of 2007 market conditions for petrochemical feedstocks in general were influenced by strong demand in Asia and a decline in supply due to periodic plant maintenance in the United States; prices remained at a high level. In the second half, however, a cooling of these market

conditions and the inability of manufacturers to promptly pass on price hikes in crude oil and other materials to selling prices resulted in a market downturn. Nevertheless, from a mid-term to long-term perspective, solid demand in the future will ensure that crude oil price rises can be reflected in selling prices, and favorable market conditions can be expected to continue.

Establishment of a Joint Venture in the Paraxylene Business

In view of the growth in demand for paraxylene in recent years, we made a decision to team up with Teijin Fiber Co., Ltd. and Mitsubishi Corporation to promote this business and we established TS Aromatics Limited as a joint venture. The JV produces paraxylene from mixed xylene procured from Showa Shell and sells it mainly to Teijin Fiber. By assigning the production to the existing facilities of Teijin Fiber, the new company is in a more favorable position in terms of costs than investing in new facilities. Until now we produced mixed xylene, the raw material used to make paraxylene, at our group refineries and sold it to Teijin and other paraxylene manufacturers. In the future, we hope to secure a stable customer base for mixed xylene through the joint venture.

At the same time, we plan to boost our mixed xylene production capacity. Our group company Seibu Oil Co., Ltd. has a plan to expand its production facility, which will include a Continuous Catalytic Regenerator. The start of operation of this new facility is scheduled for the end of 2009.



Catalytic Reformer at a group refinery