

REVIEW OF OPERATIONS

EXPORT/TRADING



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Overview of Business Operations

In our export business, we sell mainly diesel oil refined at our Group refineries, and in our trading business we engage in the international transaction of selling naphtha that we procure overseas. In both of these businesses demand for oil products is increasing mainly due to growth in the booming economies of Asia, and these businesses are expected to grow in the future.

Although in principle domestic sales are the main focus of our business strategy, we also export our products when overseas markets are more profitable than the domestic market. The key to making profits lies in how appropriately we can grasp the trends in the global product market and how skillfully we can secure customers. We intend to effectively use the Shell Group global network to make this

business profitable.

In our trading business, in the past we promoted independent development of our business while cooperating with the Shell Group. As demand grew and the scale of the flow of products in global markets expanded year by year, however, our view regarding the advantageous supply of products has shifted from the supply of products on a regional basis to supply on a more global basis. Therefore, to promote the advantageous development of our business in the future, we believe that utilizing the Shell Group global network, which covers the entire world, is the optimal approach for us and in August 2007 we integrated our trading business department with Shell Trading.

RESEARCH AND DEVELOPMENT

At our Central Research Laboratory, one of the Shell Group's research bases, we engage in research and development that takes advantage of the expertise of the Shell Group network covering the world. Through exchanges in human resources and sharing information among Group research centers in countries such as Great Britain, the United States, the Netherlands, and Germany, we make efforts to secure the most appropriate human resources and the latest technology. The Central Research Laboratory takes up a wide range of themes related to our business, focusing particularly on environmentally friendly energy in products such as high octane gasoline, *Shell Pura*, sulfur-free gasoline and diesel oil, *Shell Eco Toyu* (GTL kerosene), CIS solar powered cells, fuel cells and various types of lubricants.

In 2007 we started commercial production of CIS thin-film solar powered cells, which we have been researching

for more than a decade, at our first plant. By the end of 2007 the JHFC Ariake Hydrogen Station, which Showa Shell operates, surpassed the refueling of 2,500 fuel cells and hydrogen engine cars for the first time.

In addition, in corporation with Toyota Motor Corporation, Hino Motors Ltd., Shell International Petroleum Co., and Toyota Tsusho Corporation, we started public road trials of cars using FTD (GTL) fuel that contributes significantly to clean exhaust gas.

As one of our initiatives in the challenge to produce alternative energy sources with less environmental burden, we plan to promote sales of biogasoline (containing the additive ethyl tertiary butyl ether) through our operations to prove the feasibility of distribution as a member of the Petroleum Association of Japan. We also plan to continue to develop a range of products that give priority to environmental concerns.