

CORE BUSINESS STRATEGY



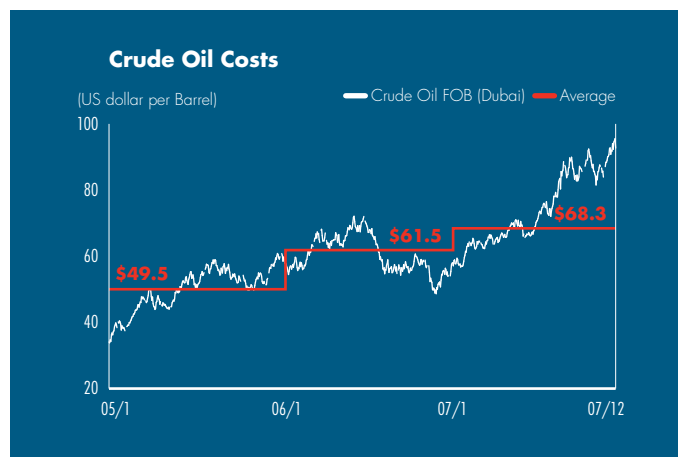
Yasuo Murayama
President and Representative Director

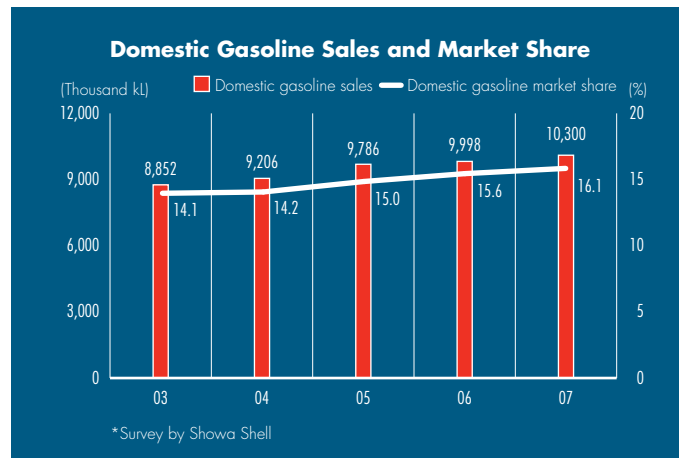
How do you view the market environment?

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Crude oil prices in 2007 continued to rise at a roughly consistent pace after Dubai crude started the year at around 57 dollars per barrel, rising sharply to around the 89 dollars per barrel mark at the end of the year. This was an unprecedented situation, and although we continued to try to reflect rises in costs on retail prices, the transfer of these costs to prices was outpaced by surges in crude oil prices each month. This resulted in significant losses during 2007. Consequently, although ordinary profit, which included gains due to inventory valuation effects, rose, ordinary profit on a current cost of supply basis (i.e. excluding inventory valuation effects) fell below the previous year's results. We continue to make efforts to revise retail pricing to appropriately reflect crude oil prices but it is difficult when crude oil price fluctuations are volatile. Stability in crude oil prices would certainly be best for us. For domestic demand for oil in 2008, we have formulated our business plan on the assumption that the trend of a slight decrease in demand will persist. On the other hand, world demand for oil products, particularly in emerging economies, is sound and we recognize that it is becoming easier to achieve economic efficiency in exports for the time being.





What kind of measures will you take in this severe market environment?

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We will promote measures in both the refining and sales areas. In refining, we have been more proactive than competitors in increasing our cost competitiveness, and now we have the top class cost competitiveness in the industry. To maintain and increase our competitiveness in refining, we believe that the key issue is to minimize the incidence of trouble at oil refineries. In 2007 we began a five year investment program for the stable operation of our facilities and the raising of their reliability. "Safety and Quality First 2008" is the theme of this program for 2008 (the theme in 2007 was "Quality First 2007") and through these efforts we are working to ensure safety and improve quality throughout our supply chain.

In our sales strategy, we are also taking an approach that is different from that of other companies. One area that we should always focus on in our sales strategy is our dealers who contribute to establishing our customer base. As the core of our sales strategy for growth, we see our affiliated dealers as our most important partners. In 2007 we held "Dealers' Meeting 2007" where we confirmed the idea of "Dealerism," or the close relationship that has existed between Showa Shell and dealers. This concept recognizes the importance of our dealers nationwide. As a measure for increasing sales through our dealers, we are continuing our efforts to expand the development of new types of service stations. In addition to the Shell brand service stations, we are promoting a service station model that is connected to a shopping center and a convenience store model. As of the end of 2007, there were more than ten of these new models. In the future we plan to expand these in line with the diversification of customer needs. Moreover, in line with intentions to boost our peripheral businesses, we must be flexible in the kinds of businesses we engage in with our dealers as our business environment changes. Even if demand per end user for oil products declines in the future, we must think of ways in which we can expand our product menu that enables us to retain and increase our customer base. Along the same lines, we have commenced to strengthen our home solutions business as well.

Although we sometimes hear pessimistic views that claim that the decrease in demand for oil will cause a decline in the business of oil companies, we do not subscribe to this view. Not all types of oil have shown a significant decrease in demand, and we believe that there are still ample business opportunities in Japan, particularly in the gasoline business. Also, at present no other form of energy for transportation has the advanced infrastructure network that oil has and can be steadily supplied in an economically efficient manner. Yet, as we prepare for responding to energy diversification over the mid to long term, we believe that we need to strengthen our current core business.