

## REVIEW OF OPERATIONS

### MAIN FUEL SALES



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### Overview of Business Operations

Our main fuel sales business is broadly divided into retail sales of fuel for service stations and B to B sales of industrial fuel for users that require fuel for manufacturing, transport, electric power, agriculture, forestry, and fisheries. Our main products are gasoline, diesel oil, kerosene, heavy fuel, and automotive lubricants.

Our strategy is to broaden the customer base and increase sales per customer. Last year we concentrated our efforts on increasing the number of Shell customers one by one and raising the value of sales per customer and per company in both retail sales and industrial fuel sales by providing high quality products and services. Our efforts were rewarded with positive results. As domestic demand in Japan fell, our retail division succeeded in boosting sales of gasoline by approximately 3% in comparison with the previous year. These efforts included ambitious initiatives to convert existing service stations in the Tokyo metropolitan area to self-service stations, to widen the nationwide reach of our dealer network, and to open new service stations. As of the end of last year, our ratio of self-service stations rose to 16% of our total. In the future we plan to continue efforts to increase the number of self-service stations after carefully examining customer needs and the profitability of each station, irrespective of size. In industrial fuel sales, as our customers continue to look to fuel alternatives in response to environmental regulations and other factors, we directed our efforts to reorganizing structures within our branches and to training sales staff to provide them with skills that will enable them to offer a range of proposals to customers. Ever mindful of improving value chain efficiency in every department, we also devoted our efforts to enhance cost competitiveness and reach top-class levels in the industry.

### Business Strengths

#### 1. Partnership with Dealers

To continue as a brand that has the ongoing support of our customers over the years, it is essential for us to accurately grasp different customer needs, which vary from region to region, to enable us to provide customers with the ideal services for them. This is why we have stated our commitment to a policy to grow together with our network of affiliated dealers, which have developed their businesses deeply rooted in their local areas. We also understand that we cannot strengthen the competitiveness of service stations without enhancing the skills and motivation of staff at dealers, who come into direct contact with customers on a daily basis. Therefore, we are working to maximize our brand value throughout the value chain from products to services at service stations by revitalizing our system of human resource development for dealer staff as well as our organizational activities.

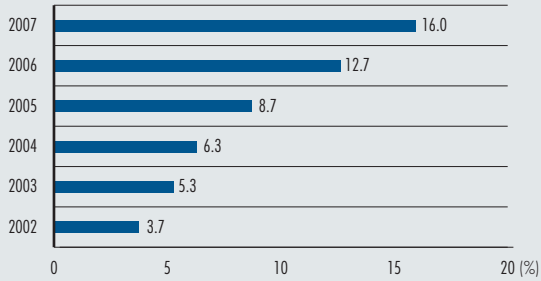
#### 2. New Types of Service Stations

One of our areas of strategic investment in our main fuel sales business is the development of service station models in conjunction with shopping centers or convenience stores designed to provide the convenience of one-stop shopping. The promotion of integrated sales with shopping centers and shoppers being able to drop by a service station to fill up their tanks after finishing their shopping have been well regarded by customers and we are speeding up preparations to open more service stations of this type in all areas nationwide. Without being limited by the status quo, we will continue to look for innovative ways to improve the convenience of supplying fuels to our customers and will launch these services in the market.

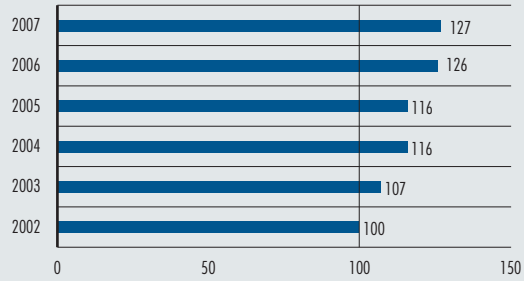
#### 3. Cost Competitiveness

Since 1996 when the industry became effectively deregulated following the repeal of the Provisional

**Self-Service Station Ratio**



**Average Gasoline Sales per Self-Service Station (2002=100)**



Measures Law on the Importation of Specific Refined Petroleum Products, Showa Shell has continued ongoing efforts to increase management efficiency in all areas of the value chain from crude oil procurement to sales at service stations. Moreover, we continuously review from every angle and at every level our current cost structure in efforts to establish a foundation for the future.

**Measures for 2008**

Following on from the previous year, we will continue to promote our strategy to broaden our customer base and increase sales per customer in 2008 and we will cooperate with our affiliated dealers in directing maximum effort to achieving our goals. In retail sales we will promote the streamlining of service stations on the one

hand and the development of new types of service stations on the other in efforts to maximize per station efficiency. We will also utilize customer satisfaction surveys in existing service stations in efforts to develop service station concepts that will respond to diverse customer needs. In sales for industrial users, we will develop sales services that incorporate consulting services that consider the best energy mix for customers and provide them with proposals on rationalization. In these ways, Showa Shell will promote growth in existing and new business areas by introducing customers to a range of products that suit their individual needs including, for example, proposals for introducing our high-quality industrial lubricants and greases, or clean LNG fuel for customers considering switching to alternative fuels.



High value-added models

- Type based on location
- Comprehensive automotive support services "Total carlife support"



Self-service station models for sites with limited space

- Low-cost self-service
- Fuel sales and car wash



Shopping center model (Fantasista)

- Low-cost self-service
- Fuel sales and car wash



Convenience store models

- Convenience store with self-service station
- Specializing in fuel sales