

## Message from the Chairman

Thank you for reading the Sustainability Report 2007 of Showa Shell Sekiyu. This report, which is published to maintain continuous communication with the company's stakeholders, discusses Showa Shell's environmental, social, and economic performance during 2006, as well as the activities that is appropriate for Showa Shell, as an energy company, to undertake in the future.

Crude oil prices reached a historic high in 2006, and the high price of crude pushed up prices for various petroleum products. These high prices encouraged the use of fuel-efficient vehicles, which resulted in a decline in demand for transportation fuels in Japan. In addition, a mild winter brought a significant drop in demands for kerosene and heavy oil. These factors made for a difficult year.

Working within such a business environment, Showa Shell managed to achieve consolidated ordinary income of ¥58.0 billion in 2006 on a current cost of supply (CCS) basis, exclusive of the effect of inventory valuation, thanks to its customer-oriented strategy, and was able to pay dividends of ¥36 per share. In addition, the Miyazaki Plant, which manufactures CIS (copper-indium-selenium) photovoltaic modules (next-generation solar powered cells) was completed in October, and is scheduled to commence full-scale mass production in 2007.

In recent years there has been a striking shift in the expectations and demands that society places on business. Concern for health, safety, security, and environmental protection (HSSE) is rising around the world. Even before the 1985 merger, the company published a magazine entitled *Quality* (starting in 1970) that featured environmental issues, and from 1993 on, it published an environmental report entitled *Moderate*. In 2003, the company began publication of its CSR Report, and from 2007 on, it has decided to publish its annual *Sustainability Report*.

Attaining sustainability is no easy task for an oil company like Showa Shell. Petroleum remains Japan's principal energy source, and Showa Shell's chief role is to provide a stable supply of energy (primarily petroleum) to Japanese consumers over the long term, while at the same time developing and supplying efficient, environmentally friendly energy sources. The simultaneous achievement of these two goals represents Showa Shell's sustainability.

After considering what immediate steps it could take as an oil company, Showa Shell joined the University of Tokyo and others in the Integrated Research System for Sustainability Science (IR3S) in establishing the Energy Sustainability Forum (ESF) in February 2007. By making recommendations to policymakers, the company is engaged in the effort to build an energy sustainability strategy.

Showa Shell will also reduce the volume of CO<sub>2</sub> emissions at the Group's oil refineries, in its petroleum refining and retail businesses, peripheral businesses, and new businesses. Showa Shell has strengthened its environmental activities by developing environmentally friendly products, including Shell Eco-Toyu, synthesized from natural gas using GTL technology, and the "solacis" CIS photovoltaic system. The company continues to engage in education on environmental issues through the Environmental Photo Contest, held since 2005, and the Project for Reforestation of the Mt. Fuji Forest, which it joined in 2007.

I hope that this Sustainability Report 2007 will give all stakeholders a deeper understanding of the Showa Shell Sekiyu Group's activities, and I invite your opinions and advice to help us realize the continuing betterment of society and growth for Showa Shell.

**Haruyuki Niimi**

Chairman and Representative Director  
Showa Shell Sekiyu K.K.

