

MESSAGE FROM THE CHAIRMAN



Shigeya Kato
Chairman and Representative Director

A handwritten signature in black ink, appearing to read 'S. Kato', written on a white background.

We are facing a period of unprecedented change. The financial crisis in the U.S. triggered by the sub-prime loan problem has resulted in a dramatic slow-down for globalized economy and industry. The price of crude oil, which had risen on an influx of speculative money, also fell considerably from the latter half of last year. Meanwhile, the debate on creating the framework for a low-carbon society continues to intensify, and there are growing calls in Japan for environment-conscious corporate management.

The business climate for the oil industry has also gone through a transformation as a result of these changes. At the present moment, the economic slow-down has led to a temporary falloff in demand for oil, and crude oil prices during the first half of 2009 have also remained low. Over the medium to long term, however, we expect the price of oil to gradually rise and remain high as a result of growing demand stemming from population growth and economic development in emerging countries, along with dwindling supply from easily recoverable reserves and other factors. We consider the main issue facing our company to be the establishing of a management and business structure adaptable to the change in the current business environment and to the future structural changes in the business climate.

The New Foundation business plan launched in 2005 is now in its fourth year. In the oil refining and sales business, an area where we have continued to strive to improve efficiency, implementing strategic measures to respond to the changing business environment has become a particularly pressing issue. In next-generation CIS (copper, indium, selenium) solar business, for which we began commercial production in 2007, we are accelerating our efforts in order to expand the business globally.

The key points for developing these businesses are full transparency, a management structure able to make decisions quickly, and the development of human resources. The new management structure implemented in April clearly separates the responsibilities and authority of the board of directors from that of the operating divisions. The board of directors includes more outside directors in order to establish a highly transparent management structure, while for business operations the executive officer structure has been expanded and enhanced. These changes allow for quick and accurate management decision-making in a rapidly changing business environment.

We have also established several committees to support the operating divisions, such as the Internal Control Promotion Committee, the HSSE (Health,

Safety, Security, and Environment) Committee, and the Internal Audit Committee. Our aim is to strengthen corporate governance by putting in place a highly transparent and trustworthy operating structure.

The Japanese version of SOX (the Financial Instruments and Exchange Law) will be applied to Showa Shell from financial year 2009. Along with the governance structure outlined above, we will also take steps to ensure the accuracy of our financial information.

Lastly, Showa Shell Sekiyu recognizes that compatibility with the global environment is indispensable for achieving sustainable business growth. We will continue to focus on ensuring a stable energy supply, lowering the environmental burden mainly by cutting CO₂ emissions in the supply chain, and developing new types of environment-friendly energy and products centered on our solar business.

Showa Shell Sekiyu, by ensuring business management that is fully conscious of the global environment, and by establishing a structure that allows for a fast and flexible response to changes in the external business climate changes, will maximize its corporate value as it seeks sustainable growth. Thank you for your continued support of the Showa Shell Group.