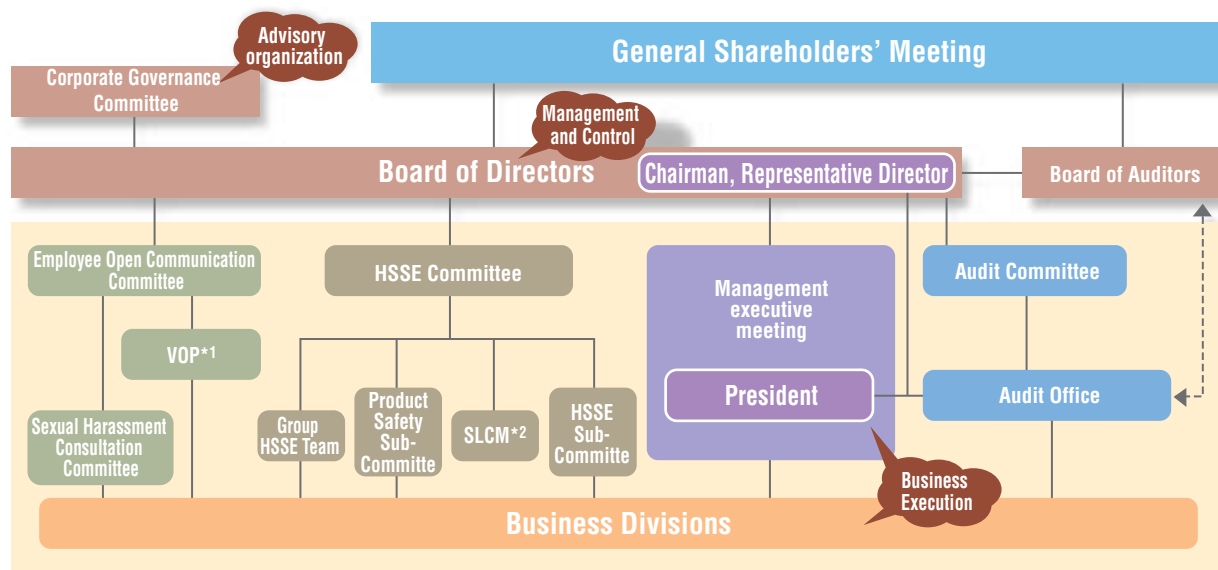


## Corporate Governance

Showa Shell's goal is to increase corporate value while delivering stable earnings and continuous growth. It has engaged in efforts to restructure its management by streamlining the number of board members, introducing an executive officer system and further clarifying responsibilities and authority, and enhance the participation of outside board members. The company is also working to increase management transparency, improve efficiency, and separate the management oversight and business execution functions. In 2004, Showa Shell established a Corporate Governance Committee as an advisory organization to the

Board of Directors. (Committee chairman: chairman of the Board of Directors; other members: 2 external directors and 2 external experts) The Committee membership includes external experts, and its purpose is to evaluate and advise on important management matters from an objective perspective. Showa Shell strives to increase the transparency of its management and maintain objectivity through the Committee's activities. Going forward, the company will continue to build an optimal governance structure that can appropriately respond to changes in company objectives and conditions, and the social and legal environments.

### ■ Showa Shell's Structure for Corporate Governance, Legal /Social Norm/Corporate Ethics Compliance, and HSSE Risk Management



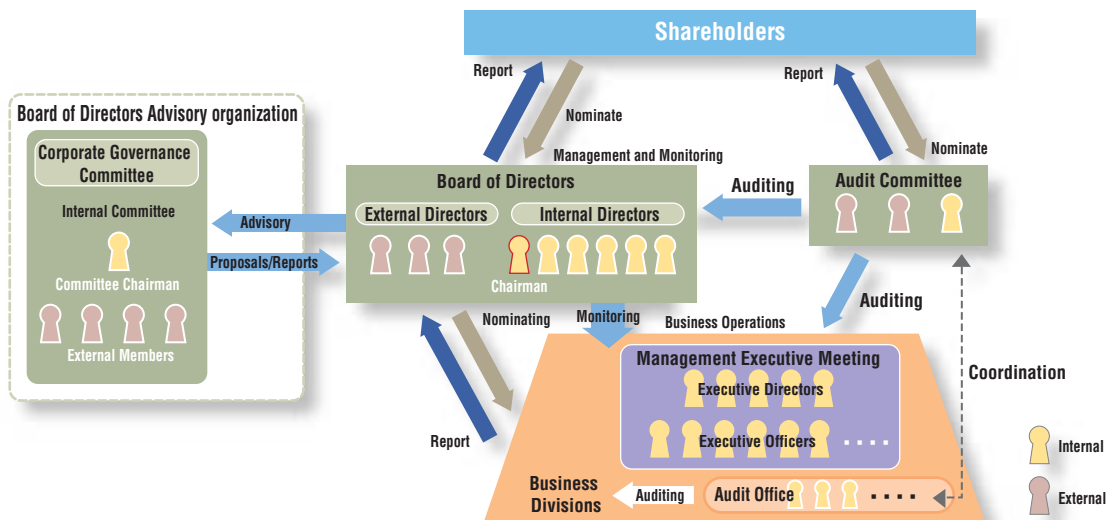
\*1 VOP: Voice of the People (Employee consultation service) (see p. 10)  
\*2 SLCM: Security Liaison Committee Meeting (see p. 14)

- The Board of Directors deliberates on important matters such as management strategy and oversees the execution of business. It has been streamlined to nine members (including three outside directors). The chairman of the Board of Directors, Chairman, Representative Director, and three outside directors do not sit on the Management Executive Meeting, in order to separate the management and business execution functions.
- The Audit Committee oversees the directors' business execution as well as accounting matters. It is composed of three members (including two external experts).
- The Corporate Governance Committee was established in 2004 as a permanent advisory organization to the Board of Directors. Its objectives are to improve management transparency and maintain objectivity, and it relies on the objective perspective of external experts. The Committee evaluates and monitors important corporate governance matters, and is comprised of the chairman of the Board of Directors (who is Committee chairman) and outside Committee members (2 outside directors and 2 external experts).
- In addition to this ad hoc committee, two other committees, both headed by the President, have been established. (1) The HSSE Committee is the top decision-making body covering approval of annual basic policies related to the company's HSSE (health, safety, security, environment) program and performance reviews of established activity goals. (2) Employee Open Communication Committee was established to realize a highly transparent, dynamic company. It strives to achieve this by relaying employee opinions to management and otherwise encouraging more active internal communication.
- The executive officer system has been introduced to the business execution structure in an effort to keep the management and execution functions separate. The President acts as Management Executive Meeting chairman. The Committee is pushing to accelerate decision-making by clarifying board member and executive officer responsibilities and authorities.
- The Audit Office, which is under the direct jurisdiction of the president and CEO, carries out periodic internal accounting, business, and compliance audits.
- Internal regulations have been established to maintain the crisis management system, and the HSSE Committee monitors and supervises implementation of the Plan-Do-Check-Act formula using the HSSE management system.
- Employee Open Communication Committee investigates compliance-related comments made through the employee consultation channel and determines the necessary response based upon the corporate ethics described in the Code of Conduct.

## Showa Shell's Basic Stance on Corporate Governance

1. To accelerate decision-making and clarify accountability through the separation of management and execution functions.
2. To reflect the objective views of external parties to management and improve transparency through voluntary disclosure of information.
3. To establish monitoring functions and improve them as necessary in order to thoroughly ensure compliance and risk management.
4. To respect consensus-based decision-making that reflects a diversity of opinions, ensures rational decisions and fosters management teamwork, a strength of Showa Shell's corporate culture.
5. To ensure the rights and benefits of all, including minority shareholders, and show particular consideration for shareholder equality in light of the company's unique capital structure.

### ■ Corporate Governance Structure (as of April 2005)



The chairman of the Board of Directors, Chairman, Representative Director, and three outside directors do not sit on the Management executive meeting, in order to separate the management and business execution functions.