

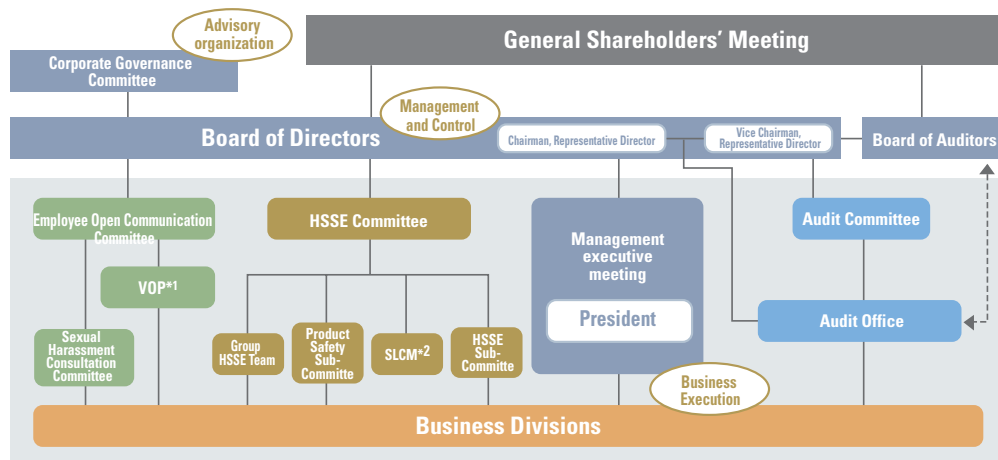
# Management Structure

## 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. (In 2004, Showa Shell established a Corporate Governance

Committee as an advisory organization to the board of directors. This committee consists of a committee chairman, the chairman of the board of directors, a special advisor, an external director, and two 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. 12)

\*2 SLCM: Security Liaison Committee Meeting (see p. 16)

- The board of directors was composed of 11 members (including three external directors) as of April 2006 and makes decisions on management strategy and other important matters. The board also exercises oversight functions over the execution of operations.
- The Audit Committee oversees the directors' business execution as well as accounting matters. It is composed of four 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 Corporate Governance Committee is comprised of the chairman of the board of directors (who is the committee chairman), an internal special advisor, and external committee members (two external directors and two external experts). The committee evaluates and monitors important corporate governance matters.
- 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)

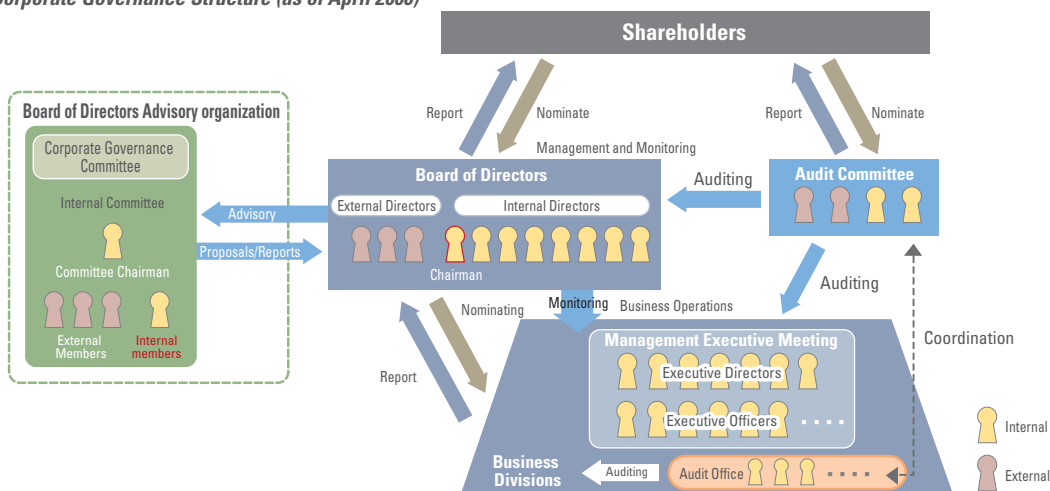
Employee Open Communication Committee was established to realize a highly transparent, dynamic company. It strives to achieve this by relaying employee opinions to management and otherwise encouraging more active internal communication.

- 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, under the direct supervision of the chairman and vice chairman of the board of directors, performs periodic internal audits of accounting, administration, compliance, and other areas.
- 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 2006)



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.

### Showa Shell's Basic Internal Controls Policy

In accordance with the Corporation Law, which came into effect on May 1, 2006, the board of directors must approve a resolution establishing the internal controls system mandated by the pertinent order by the Ministry of Justice of Japan. On March 30, prior to the effective date of the Corporation Law, Showa Shell's board of directors approved the Basic Policy on Internal Control System to Ensure Business Appropriateness based on the above-mentioned ministry of justice order. The full text is on page 70.