

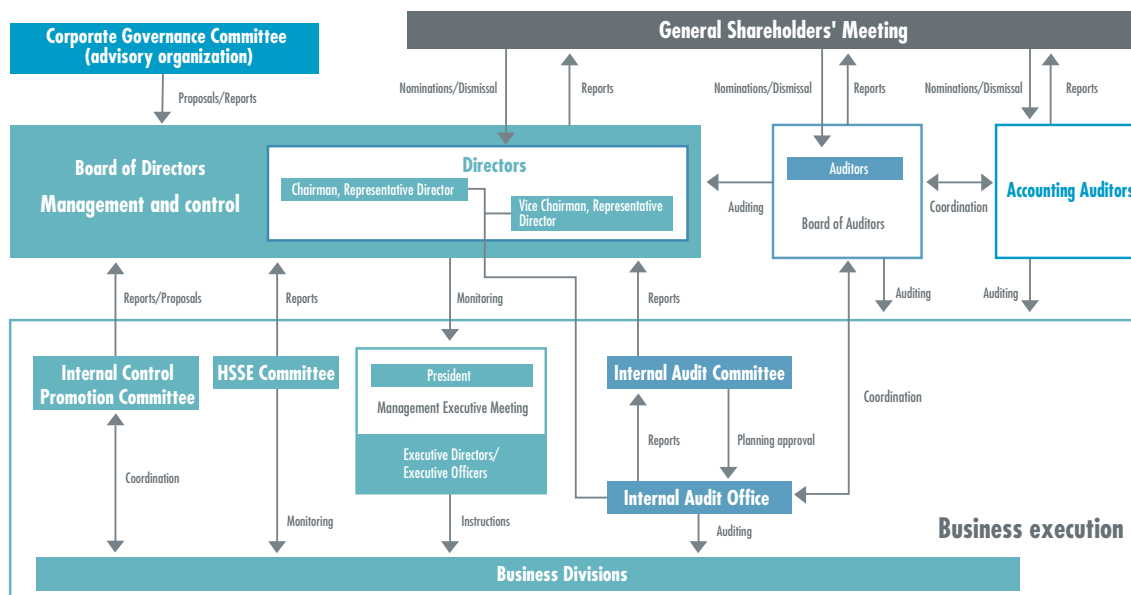
Corporate Governance and Internal Controls

Showa Shell Sekiyu's Basic Stance on Corporate Governance

The Showa Shell Group is striving to increase its corporate value and to meet its corporate social responsibilities to all its stakeholders through sustainable development. Based on the five principles below, the Group is building a governance structure that is capable of leveraging its advantages and responding to changes in the social and legal environments, with the objective of achieving further improvements in management transparency and reliability.

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 traditional strength of Showa Shell's corporate culture.
5. To ensure the rights and benefits of all shareholders of the company are respected, including minority shareholders, and show particular consideration for shareholder equality in light of the company's unique capital structure.

Corporate Governance and Internal Controls System



Further Enhancement of Management Efficiency

The company has been engaged in improvements to its corporate governance continuously since 1997, when the company reduced the number of directors (from 18 to 11 board members), implemented an executive officer system, and clarified lines of authority, all of which served to separate management oversight from operational execution.

Strengthening Management's Monitoring Ability

The company is working to increase the number of outside directors and auditors. (At present, there are three outside directors and two outside auditors.) In 2004, the Corporate Governance Committee was established as a permanent advisory organization for the board of directors. The Committee, which includes external experts, evaluates and monitors important matters related to corporate governance.

Increasing Management Transparency

Recognizing that the disclosure of corporate and financial information is an important element of corporate governance, the company adopted the Basic Policy on Disclosure in 2007. The policy calls for the timely and accurate disclosure of information both inside and outside the company. The Disclosure Regulations adopted in that same year mandated the establishment of a Disclosure Sub-Committee as a subordinate organization to the Internal Control Promotion Committee. Showa Shell Sekiyu and its Group companies are implementing and employing systems to better realize and ensure the timely and accurate disclosure of information. Also in 2007 the executive retirement compensation system was abolished.

Basic Principle for Disclosure

[Web www.showa-shell.co.jp/english/profile/mp/disclosure.html](http://www.showa-shell.co.jp/english/profile/mp/disclosure.html)

Stance on Building Internal Control Systems

To achieve sustainable development in the Showa Shell Sekiyu Group, it is as important that management give consideration to environmental and social factors as it is to focus on financial factors such as earnings and dividends. At the same time, the company is conscious of its responsibilities, not just to shareholders, but also to all of its stakeholders, including customers, suppliers, employees, and the public, and recognizes the need to increase its corporate value.

The Showa Shell Sekiyu Group, composed of Showa Shell Sekiyu and its subsidiaries, has adopted a Basic Policy on Internal Control System to Ensure Business Appropriateness, to ensure that corporate social responsibilities are met, as well as to heighten the transparency and efficiency of management. Based on this, the company is building internal control systems with autonomous monitoring capabilities, thereby achieving long-term sustainable development through balanced and sound management.

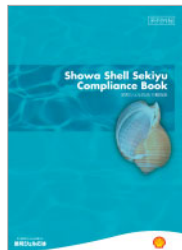
Basic Policy on Internal Control System to Ensure Business Appropriateness [Web www.showa-shell.co.jp/english/profile/mp/control.html](http://www.showa-shell.co.jp/english/profile/mp/control.html)

Internal Control Promotion Committee

Based on its Basic Policy on Internal Control System to Ensure Business Appropriateness, the Group has established an Internal Control Promotion Committee. This Committee is charged with effectively monitoring the direction of activities related to the promotion of internal controls in such areas as compliance, risk management, disclosure of information, and whistle-blowing, and with the formulation and proposal of measures for improvement.

Promoting Compliance through Employee Education

The company reviewed the content of its *Commentary on the Code of Conduct*, previously published to promote understanding of its Code of Conduct, and published a new Compliance Book. This book helps each employee to achieve a deeper understanding of the Code of Conduct, and gives concrete actions to put it into practice. The Book is distributed to all employees and is also available on the company's intranet. In addition, the company strives to raise employee awareness of compliance through e-learning and training opportunities, and to further the knowledge of and compliance with the Code of Conduct.



The Compliance Book

Policy Regarding Procurement Activities

In its procurement activities, the Showa Shell Sekiyu Group always keeps fair competition in mind. Based on fair and transparent procedures, the Group gives careful consideration to social and environmental concerns, including economic rationality, compliance with laws and corporate ethics, resource conservation, and environmental protection. In implementing this philosophy, the company asks its business partners to understand Showa Shell's Code of Conduct and work together in a spirit of mutual trust to achieve its objectives. The company is committed to implementing its purchasing procedures based on the Green Procurement Guidelines.

Voice of the People

The Voice of the People (VOP) program solicits constructive opinions and proposals for ways to improve employee compliance with the Code of Conduct, and to resolve problems and concerns with personnel actions and the workplace environment. These opinions and proposals can then be reflected in management practices. In addition to points of contact within the company, VOP has established points of contact at third-party organizations to facilitate optimum responses to the opinions, proposals, concerns, and consultations received through the program. Furthermore, to energize communications throughout the Group, we are promoting participation in the program by the employees of Group companies. Now, 32 Group companies are participating.

Risk-Management System

For matters not related to HSSE (see page 40), Showa Shell is taking measures regarding high priority matters as needed, through the annual preparation of business control metrics (including a thorough examination of the risks associated with business targets, ascertaining the degree of effect and status of control of these risks in view of the frequency of their emergence). In addition, the company has created business control checklists that list items for each division to monitor, to ascertain the status of the management of risks that arise in the course of daily operations. Department heads are required to conduct an annual self-evaluation of the status of the management of these items, and report the results to the Internal Control Promotion Committee.

Cooperation with Group Companies

To implement a more effective internal controls system, the entire Showa Shell Sekiyu Group is engaged in the Affiliate Companies Internal Control Systems Development Project. There are 37 companies participating in the project, which runs the gamut from the implementation of regulations related to internal controls to thorough personnel training and monitoring of the status of systems. Then, to improve the effectiveness of internal controls in both the company and the Group, a Group Audit Section was established within the Affiliated Company Department in September 2007 to bolster the auditing ability of the entire Group.