

Sustainable Management Promotion System

Corporate Governance and Internal Control System

Showa Shell Sekiyu's Basic Approach to Corporate Governance

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

1. Accelerate decision-making and clarify accountability by separating management and executive functions.
2. Reflect the objective views of external parties to management and improve transparency through the voluntary disclosure of information.
3. Establish monitoring functions and make any improvements needed to ensure thorough compliance and risk management.
4. 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. Ensure that the rights and interests 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 Structure

Showa Shell has been promoting corporate governance reforms since 1997. Initiatives have included a reduction in the number of directors, the adoption of an executive officer system, and the clarification of executive officers' responsibilities and authority, which was the result of a push to firmly separate management oversight from business execution.

The new management structure launched in April 2009 has strengthened the oversight function of the Board of Directors by calling for the appointment of outside directors to half of the company's eight director positions. Moreover, the new structure has reinforced the company's business execution structure by increasing the number of executive officers and making a clear distinction between the roles of the Board of Directors and the executive officers.

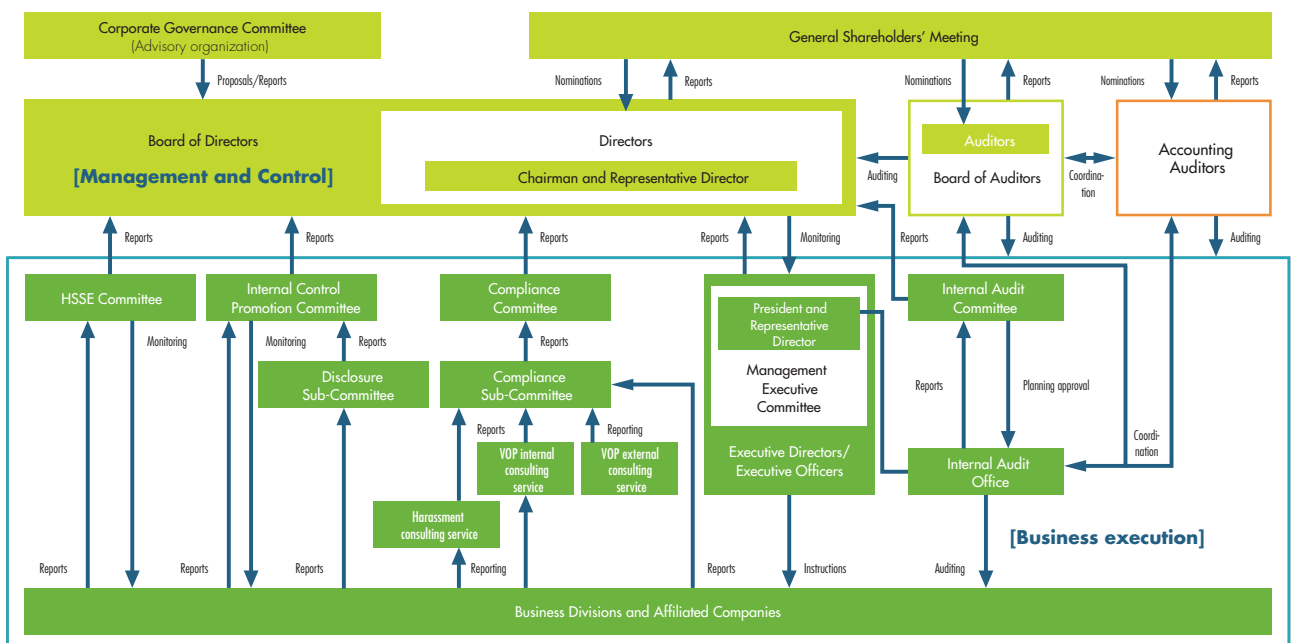
The company established a Corporate Governance Committee, which includes outside experts, as a permanent advisory

organization to the Board of Directors. The committee advises the board on important matters relating to corporate governance, thereby promoting greater management transparency.

Brief History of Governance Structure Development at Showa Shell

1997	Number of directors reduced from 26 to 22 Code of Conduct set out
1999	Number of directors reduced from 18 to 11 Executive officer system adopted
2003	Executive officer system revised, Management Executive Committee established Outside directors increased by 1 "Voice of People" established
2004	Corporate Governance Committee established
2005	Outside directors increased by 1
2006	Internal Control Promotion Committee established
2007	Disclosure Sub-Committee established Executive retirement allowance system abolished
2009	Outside directors increased by 1 (4 of 8 directors now outside directors)

Corporate Governance and Internal Control System



Approach to Building Internal Control Systems

Web Basic Policy on Internal Control System to Ensure Business Appropriateness

To achieve sustainable development in the Showa Shell Sekiyu Group, it is as important that management consider 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 its shareholders, but also to all of its stakeholders, including its customers, suppliers, employees, and the public, and recognizes the need to increase its corporate value.

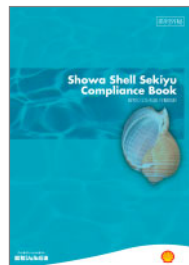
The Showa Shell Group established a Basic Policy on Internal Control System to Ensure Business Appropriateness in order to further promote management transparency and efficiency and to fulfill its social responsibilities as a corporate group comprised of Showa Shell and its subsidiaries. The Group has developed a system that includes an autonomous monitoring function, which allows for the adoption of balanced and sound management practices in the pursuit of sustainable, long-term growth.

Internal Control Promotion Committee

To fulfill the Group's corporate social responsibility, increase its corporate value, and further instill the company's Management Philosophy and Code of Conduct, this committee is charged with developing and managing an internal control system. The committee monitors various activities for promoting internal controls related to risk management, information disclosure, and compliance, confirms the effectiveness of those activities and proposes improvement measures, and develops and manages systems for ensuring the propriety of financial reporting in response to the Japanese version of the Sarbanes-Oxley Act (J-SOX).

Compliance

Showa Shell has formulated a Code of Conduct to serve as a general behavioral guideline that all employees should follow when conducting business activities. This code clarifies not only the necessity of legal compliance, but also the need to fulfill social responsibilities in line with the highest standards of corporate ethics. All Group companies have been adopting the same Code of Conduct since 2006.



Compliance Book

In 2008, Showa Shell created and distributed its Compliance Book, which is intended not only to disseminate messages from the company's top executives, but also to promote an understanding of the Code of Conduct. The information contained therein is being conveyed to employees through training sessions and other measures. The rate of employee participation in Web Learning since the publication of the Compliance Book has risen to 93%, therefore indicating that the book has effectively raised the level of awareness of compliance issues.

Showa Shell's policy with regard to criminal organizations is to treat them as threats to the order and safety of civil society, and to deal with them in accordance with the law. The company has designated a department to be responsible for formulating a response to such organizations, and that department maintains contact with the police and other external institutions.

Voice of People

The Voice of People (VOP) program was established to elicit problems and concerns regarding compliance with the Code of Conduct, the treatment of personnel, and the workplace environment, to solicit constructive opinions and proposals for improving the company, and to create a way for those opinions and proposals to be reflected in management practices. In addition to providing points of contact within the company, the VOP program has established points of contact with third-party organizations that can protect the anonymity of users. This has been done to facilitate an appropriate response to the opinions, proposals, concerns, and inquiries received through the program.

In an effort to improve overall communication, the Group is encouraging employees to participate in the program. A total of 42 Group companies are now participating.

Information Management and Disclosure

The company has established regulations regarding information management, and has made each department manager responsible for information management. Information is managed based on the classification level assigned to each piece of information, with important documents centrally managed by the Legal Department.

The company has released both within and outside of the company a Basic Policy on Disclosure, which calls for the timely release of accurate information. It has also established a Disclosure Sub-Committee under the organizational authority of the Internal Control Promotion Committee. This configuration gives Showa Shell a system for ensuring the completeness, timeliness, and appropriateness of disclosed information, thereby further improving management transparency.

Internal Controls at Group Companies

To develop a more effective group-wide internal control system, the Group has been carrying out an internal control system development project with affiliated companies. The project, which has been undertaken at 37 companies, covers the development of regulations regarding internal controls, efforts to ensure that employees are familiar with these regulations, and measures to check their implementation status. In September 2007, the Group established the Group Auditors Office with the aim of strengthening the auditing functions of auditors at affiliated companies.

Risk-Management System

HSSE risks are among the risks that have a potential effect on Showa Shell's corporate value and business. The system for managing these risks is periodically audited and improved by the HSSE Division, which is also responsible for conducting educational and training activities on a company-wide basis. The HSSE Committee, meanwhile, approves annual basic policies on HSSE, carries out performance reviews of established action targets, and evaluates the effectiveness of HSSE-related activities. To enable the company to maintain key business operations even in the event of an accident or disaster, a Crisis Management Plan and Business Continuity Plan have been drafted. These plans are periodically reviewed with employees and revised. (For details, see p. 43, "Health, Safety, Security, and Environmental Management System.")

To address business risks, Showa Shell devises measures on a company-wide basis regarding high priority matters through the annual preparation and review of a business control matrix. This matrix identifies the risks associated with business objectives and ascertains their level of impact and control status. The company has also created checklists to monitor the management of everyday risks, including compliance risks. Department managers are required to conduct an annual self-assessment of the management status of these items, and to report their results to the Internal Control Promotion Committee.