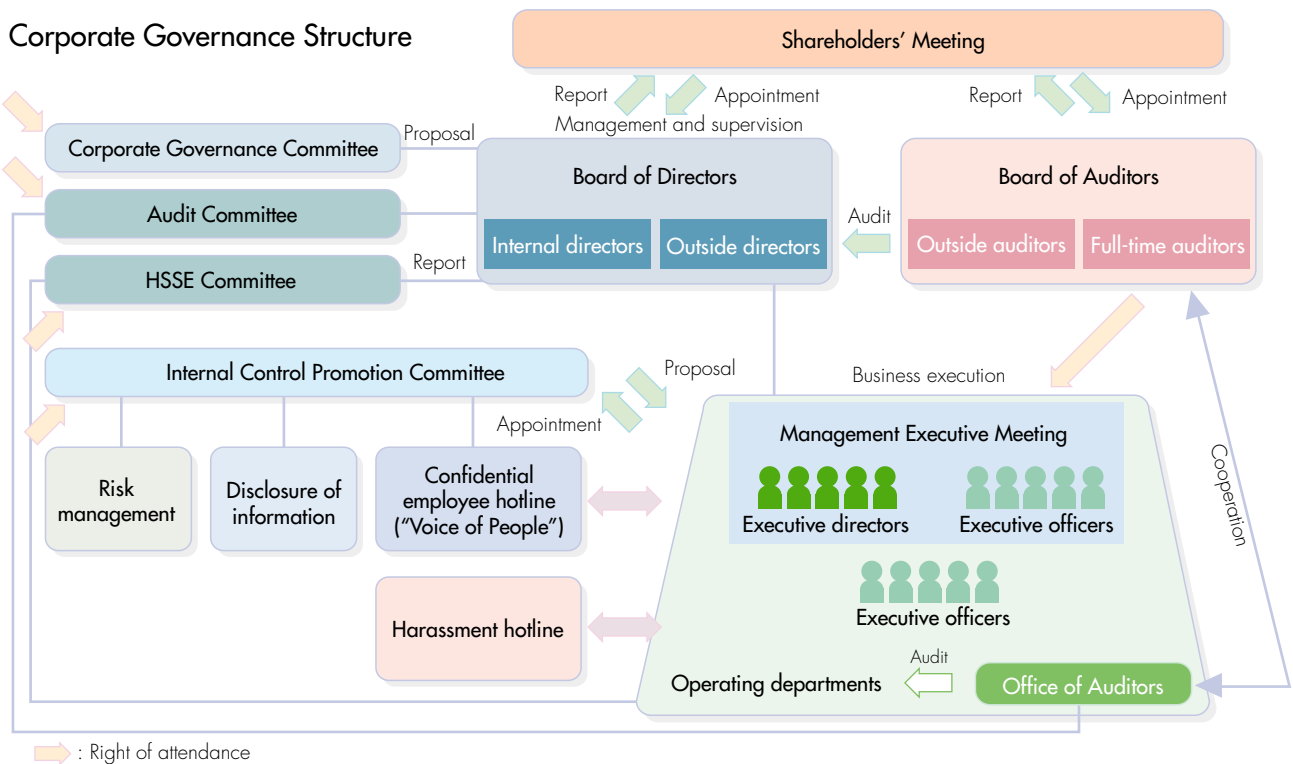


# ■ Corporate Governance

Showa Shell's goal is to increase enterprise value while delivering stable earnings and continuous growth. To achieve this goal, the Company has reduced the number of board members, introduced an executive officer system, and enhanced the participation of outside board members while giving them greater authority. Through such management reforms, the Company has effectively separated its management oversight and business execution functions. In 2004, Showa Shell established a Corporate Governance Committee as an advisory organization to the Board of Directors, as part of its measures to improve its corporate governance system.

## Our 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 objectives 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 shareholders, including minority shareholders, and show particular consideration for shareholder equality in light of the Company's unique shareholder composition



## Improving Compliance

Our standards for compliance can be found in Article 4 of our Code of Conduct (see p. 34). The Company demands honesty, integrity, and high ethical standards in all aspects of business operations. The offer, payment, solicitation, and acceptance of bribes in any form constitutes unacceptable business practice. Employees must avoid conflicts of interest between their private financial interests and the conduct of company duty.

In terms of actual systems in place, we have introduced a consultation service, dubbed the "Voice of the People" (VOP), as well as a sexual harassment hotline. The All-Employees' Committee addresses the issues that have been raised, and comes up with appropriate responses.

## Internal Control

In response to recent changes which include enactment of Japan's Corporate Law and the Financial Products Transaction Law, we drafted our "Basic Policy on Internal Control System." In line with this policy, we have established the Internal Control Promotion Committee, headed by the Chairman of the Board, and the Internal Control Promotion Department, which is responsible for actual implementation. The Internal Control Promotion Committee is intended to effectively integrate the internal control function for the entire group, by working with representatives from each department. This framework makes possible the development of a flexible system of internal controls. The management of Showa Shell has positioned the two-year period through 2008 as a phase during which particular focus will be put on strengthening internal controls. This will be achieved by reforming and strengthening our internal control structure.