

CORPORATE GOVERNANCE

Showa Shell has set the objective of achieving sustainable growth and increasing corporate value through the fulfillment of its corporate social responsibilities to shareholders, customers, business partners, employees, society, and all other stakeholders. To achieve this goal, the Group is building a structure with an autonomous monitoring function, improving management transparency and efficiency through the establishment of a governance structure that is capable of responding to changes in the social and legal environment, and leveraging its advantages while driving ahead toward its corporate goals.

Corporate Governance Structure

Improving Management Efficiency

Showa Shell has continuously promoted corporate governance reforms since 1997. We have separated our management oversight from day-to-day business operational functions through reforms including a reduction of the number of board members in 1997 from 18 to the current 11, adoption of an executive officer system, and clarification of authority.

Strengthening the Monitoring Function of Management

We have increased the number of outside directors to three and outside auditors to two. In 2004, we established the Corporate Governance Committee, which includes outside experts, as a permanent advisory organization to the Board of Directors. The Committee evaluates and discusses important matters relating to corporate governance.

Improving Management Transparency

We recognize that the disclosure of corporate and financial information is an important topic in corporate governance. Accordingly, in 2007 we established a Basic Policy on Disclosure, which calls for the timely and accurate disclosure of information both in and outside the company. Disclosure Regulations were established in the same year, and a Disclosure Sub-Committee was established as a subordinate organization to the Internal Control Promotion Committee. Showa Shell and its group companies are implementing and employing systems to realize and ensure the timely and accurate disclosure of information. Furthermore, we abolished the executive retirement allowance system in 2007.

Internal Control

We established a Basic Policy on Internal Control in order to pursue further transparency and efficiency of management and the fulfillment of social responsibilities as a corporate group composed of Showa Shell Sekiyu and its subsidiaries. Through the dissemination of this policy

throughout the Group down to the working level we have built a system that provides an autonomous monitoring function that enables us to practice balanced and sound management.

Corporate Ethics and Compliance

Viewing corporate ethics and compliance as necessary conditions for attaining sustainable growth and increasing corporate value, Showa Shell established a Code of Conduct (see page 48) as a guide for the execution of all its corporate activities. The Code of Conduct clarifies not only the necessity of legal compliance, but also the need to fulfill social responsibilities with a high sense of corporate ethics.

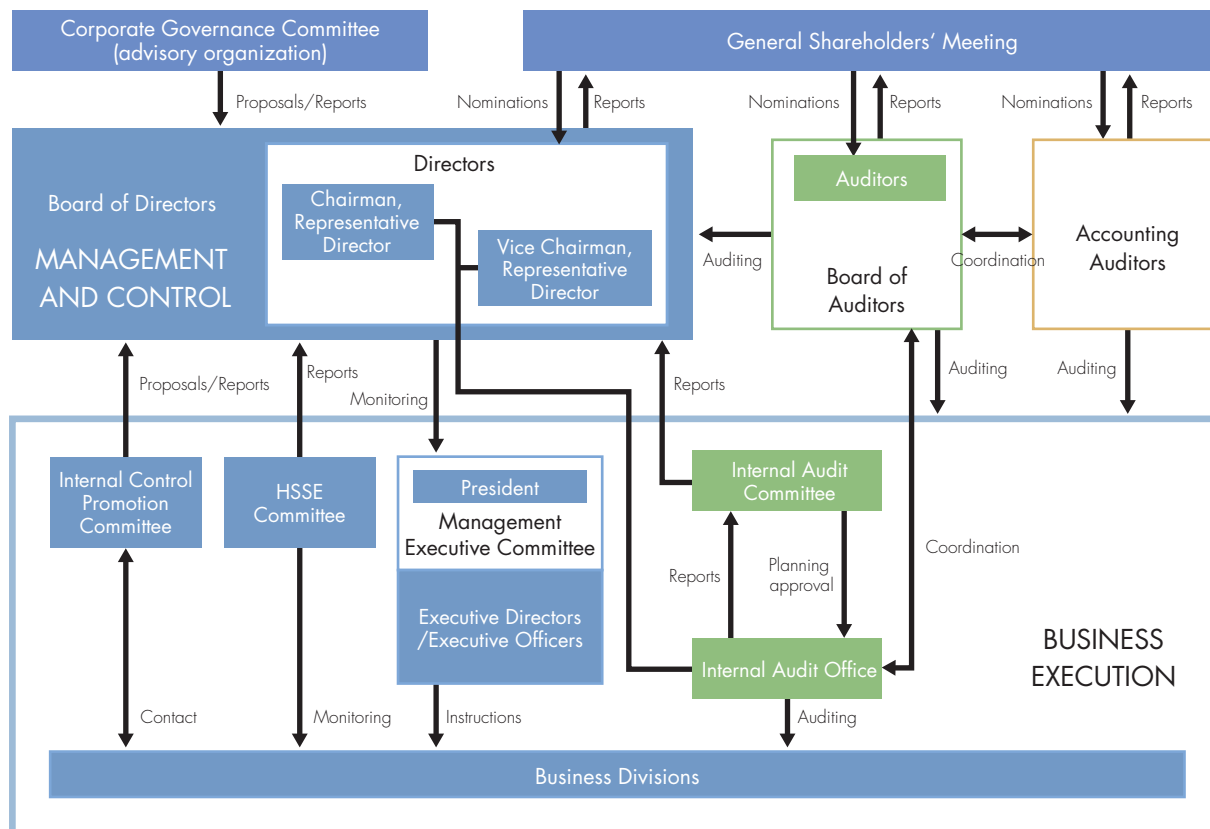
Showa Shell is making efforts to ensure that employees are thoroughly familiar and comply with the Code of Conduct by implementing related educational activities during various training sessions in addition to including it in messages sent out by top management and posting a "Commentary on the Code of Conduct" on the company intranet.

Further, we established an internal consultation service known as Voice of People (VOP), which solicits constructive proposals from employees and provides consultation on problems or concerns regarding compliance with the Code of Conduct, personnel actions and the workplace environment. These suggestions are then reflected in management practices. In November 2006, VOP points of contact were established at third-party organizations in addition to the existing internal contacts. We also promote the use of VOP by employees of the Group's subsidiaries.

Improving Operational Effectiveness and Efficiency

Showa Shell has organized various committees that serve as advisory bodies in order to reflect the specialized perspectives of each business segment when making decisions on important matters. We regularly verify the progress of our medium-term management plan and the status of our fiscal year budget and take measures accordingly to execute business efficiently.

Corporate Governance and Internal Control System



Reliability of Financial Statements

In addition to settling and disclosing quarterly results, we established a Financial Information Assurance Project Team to further ensure the correctness of financial statements. We are working to build a company-wide controls framework toward compliance with the Financial Instruments and Exchange Law (J-SOX), which becomes applicable from the fiscal year ending December 2009.

Reinforcing Controls at Group Companies

In order to develop a more effective group-wide internal control system, we have been carrying out an internal control system development project at affiliate companies since July 2006. The project, which is undertaken at 37 companies, covers the development of regulations relating to internal controls, ensuring employees are familiar with these regulations, and checking their operational status. In September 2007, we established the Group Auditors Office with the aim of strengthening the auditing functions of auditors at affiliates.

Risk Management System

Among the risks that have a potential effect on Showa Shell's corporate value and business, HSSE (health, safety, security, and environment) risks are under the purview of the HSSE Committee. This committee approves annual HSSE basic policies, monitors and supervises performance reviews of established action targets, and periodically conducts HSSE audits.

For matters not related to HSSE, Showa Shell is taking measures regarding high priority matters as needed through the annual preparation and review of business control matrix (i.e. through the identification of the risks associated with business targets and the ascertainment of the degree of effect and the status of control of these risks in view of the frequency of their occurrence.) In addition, the company has created checklists of items to monitor the status of the management of risks, including compliance risks, that are associated with 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.