



Hitoshi Satou

MANAGING DIRECTOR
Personnel, Industrial Relations, General
Affairs, and Internal Control Promotion
(including 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, cooperating company, employees, society, and all other stakeholders. To achieve this goal, we are building a governance structure that is optimal for the Company and verifying the effectiveness of its governance functions, while also taking steps to enhance management transparency and efficiency.

Corporate Governance Structure

Showa Shell has promoted corporate governance reforms since 1997. Initiatives have included a reduction of the number of directors, adoption of an executive officer system, and clarification of executive officers' responsibilities and authority, in 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 appointing outside directors to half of the Company's eight directorships. Moreover, the new structure has reinforced the Company's business execution structure by decreasing the number of directorships with concurrent business execution duties, while increasing the number of executive officers and making a clear distinction between the roles of the Board of Directors and the executive officers. Further, we established the Corporate Governance Committee, which includes outside experts, as a permanent advisory organization to the Board of Directors. The committee advises 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)

Internal Control

We established a Basic Policy on Internal Control in order to pursue further transparency and efficiency of management and to fulfill social responsibilities as a corporate group composed of Showa Shell and its subsidiaries. Through the dissemination of this policy 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 as we strive for sustainable, long-term growth. Since April 2009, we have opted for a system that creates more substantive involvement of the executive officers in overall company control by having Management Executive Committee members serve on the Internal Control Promotion Committee, HSSE Committee, and Internal Audit Committee.

Compliance

Showa Shell has formulated a Code of Conduct (see p. 35) as a general behavioral guideline that all employees should follow while 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 corporate ethics standards. Furthermore, to help put principles into practice, a Compliance Book was compiled in 2008. Following publication of the Compliance Book, our Compliance Web Learning programs for employees has been taken by over 93% of employees, a high rate that has further enhanced compliance awareness. To accompany the Code of Conduct, we have formulated and are extensively disseminating compliance regulations with respect to antitrust laws and a variety of other laws and regulations.

Another system in place is the Voice of People (VOP), an internal consultation service that enables employees of Showa Shell and its subsidiaries to provide information regarding corporate ethics concerns, as well as constructive proposals for the Company, anonymously if necessary. This system allows these suggestions to be reflected in management practices.

Our policy with regard to criminal organizations is to be always on guard, and take a firm stance against them, with the view that organizations of this kind represent a threat to the order and safety of civil society. Accordingly, our system involves an organizational response that designates the departments responsible for formulating our response and that maintains contact with the police and other external specialists and institutions.

Information Management

We have set regulations regarding information management, and vested responsibility for information management in each department manager. Furthermore, information management is conducted in response to the management level such as internal and external confidential information, with important documents centrally managed by the Legal Department. We have formulated and released both within and outside of the Company a Basic Policy on Disclosure, under which accurate information is released in a timely manner. We have 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 information disclosed, thereby further heightening management transparency.

Improving Operational Effectiveness and Efficiency

Organizational streamlining and clearer decision-making authority have resulted in faster and more flexible decision-making at Showa Shell. We have organized various committees, among them the Investment Committee and Ordering Committee, that serve as advisory bodies in order to reflect the specialized perspectives of each business segment when making decisions on important matters. We draft and regularly verify the progress of our medium-term management vision and the status of our financial year budget, and take measures accordingly to execute business efficiently.

Internal 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. 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. We have also formulated Basic Policy on Internal Control in our affiliated companies, with the object of further strengthening our internal control group-wide.

