

J-SOX (COMPLIANCE WITH THE FINANCIAL INSTRUMENTS AND EXCHANGE LAW)

Financial statements are vital tools for helping investors and other stakeholders to make investment decisions. Putting in place and operating internal controls for ensuring the reliability of these statements is thus an important responsibility for publicly listed companies.

At Showa Shell, we not only strive for the complete reliability of our financial statements, but also pursue greater operational efficiency and effectiveness in the quest to improve corporate value.

Reliability of Financial Statements (Compliance with J-SOX)

Passed into law in June 2006, Japan's Financial Instruments and Exchange Law (popularly known as J-SOX) has mandated the adoption of a system of reporting on internal control by publicly listed companies. The law came into effect from the financial year beginning April 1, 2008. To comply with J-SOX ahead of its enforcement, Showa Shell began researching the development of internal controls specific to financial statements in 2006. In 2007, we established a company-wide project the Financial Information Assurance Project Team to build a framework for evaluating the effectiveness of internal controls pertaining to financial statements.

Under the project, Showa Shell exchanges information with the Shell Group, which is subject to the U.S. Sarbanes-Oxley Act, and has solicited outside expertise in order to develop its internal controls in an efficient manner. We have also followed the guidelines in "On the Setting of

the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)," an opinion paper on internal controls published by Japan's Financial Services Agency and the Business Accounting Council.

Based on the viewpoint that control activities are the responsibility of every employee, we conduct various programs company-wide to raise control awareness. These include the publication of a house journal for all Showa Shell and Group company employees, lectures at in-house training seminars, and reports at monthly department manager meetings. Additionally, we are working to clarify our responsibilities under J-SOX as the deliberative body in this effort, at the Internal Control Promotion Committee serving, and to ensure that relevant directors and executive officers share a common understanding of our compliance status and any known issues.

Financial year 2009 is the first applicable financial year for J-SOX, and we have made strides in putting a reliable compliance system in place. The company president is responsible for evaluating and reporting on the effectiveness of internal controls pertaining to financial statements. Furthermore, testing functions have been moved from the Financial Information Assurance Project Team, which is responsible for evaluating internal controls concerning financial statements, to the Internal Audit Department. This change ensures that Showa Shell has a system for testing internal controls from an independent standpoint.

Compliance with J-SOX and Business Process Reform



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In establishing and operating an internal control system for financial reporting, Showa Shell has taken the opportunity to make extensive business process reforms beyond compliance with J-SOX. Recognizing individual business processes through clear writing serves not only to reinforce awareness of the role each process plays within the wider framework, but leads to improved standardization overall. An additional benefit to standardizing business processes among business divisions is a stronger efficiency-raising effect of IT systems.

We therefore welcome the introduction of J-SOX as an opportunity for better understanding throughout the Group of the importance of financial reporting and the contribution of business process reform.

Showa Shell Schedule for Application of J-SOX

