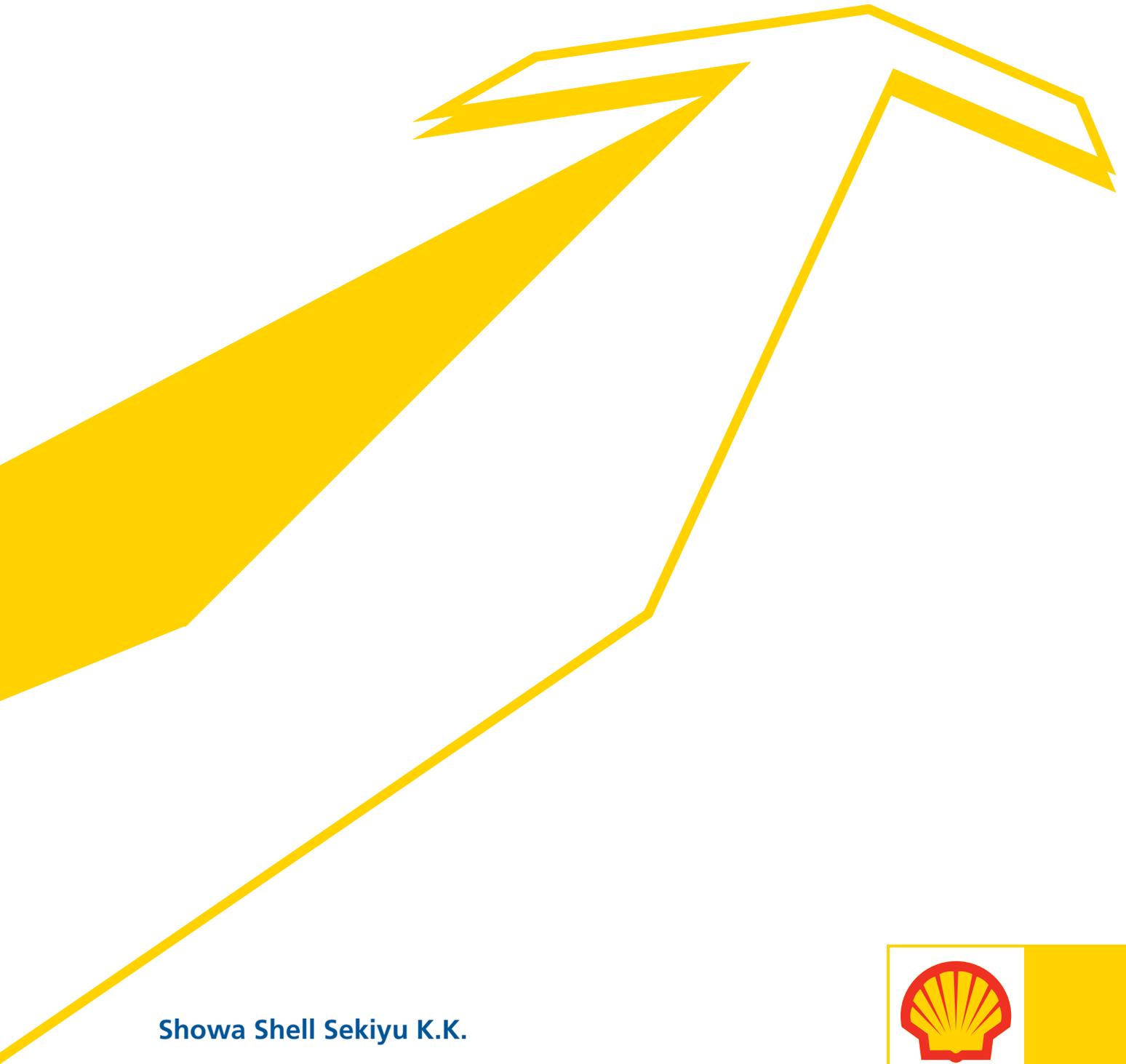


# CSR Book 2016



Showa Shell Sekiyu K.K.



# ENERGIZING THE FUTURE

## Showa Shell's Value Creation

On April 1, 2015, Showa Shell unveiled its new Group Management Philosophy: "With our energy, we energize the future." This philosophy was chosen as it paints a clear and actionable picture of the future of the Showa Shell Group. The new philosophy is accompanied by five corporate principles: Social Responsibility, Customer Focus, Innovation, Vitality, and Sustainable Growth. These are values that we have worked under in the past and that we will continue to leverage into the future. The Showa Shell Group will unite under this new Group Management Philosophy as we help create a sustainable society by providing energy into the future.

## Management Philosophy

**"With our energy, we energize the future."**

### Five Corporate Principles

#### Social Responsibility

We contribute to thriving social development through the steady supply of energy that society needs.

#### Customer Focus

We aim at being trusted and appreciated by our customers at all times, thinking and acting from their point of view.

#### Innovation

Through the development of innovative solutions, we constantly challenge the improvement in the quality of our products and services.

#### Vitality

By combining the energy of people working together, we are able to deliver a corporate culture full of vitality and motivating job opportunities.

#### Sustainable Growth

For all stakeholders, we manage our company with integrity and pursue sustainable development of society and the company.

Tsuyoshi Kameoka  
Representative Director,  
President, Group CEO



## Code of Conduct

We share a set of core values—honesty, integrity, and respect for people. We also firmly believe in the fundamental importance of trust, openness, teamwork, and professionalism, and pride in what we do.

With the foundation of the core values above, we hereby set out the Code of Conduct applicable to all business activities we do.

Text explaining each of the categories described in our Code of Conduct is displayed on the right.

- Please see our website for the text of our Code of Conduct.  
<http://www.showa-shell.co.jp/english/profile/mp/action.html>

1. Sustainable Development
2. Responsibilities
  - 1) Responsibility to customers
  - 2) Responsibility to shareholders
  - 3) Responsibility to employees
  - 4) Responsibility to contractors
  - 5) Responsibility to society
3. Business Integrity
4. Compliance
5. Health, Safety, Security and the Environment
6. Economic Principles
7. Competition
8. The Community
9. Communication
10. Political Activities

## Editorial Policy

From 2012, the Showa Shell Group has combined its Annual Report and Sustainability Report into a single publication, the "Corporate Report." This move was designed to present information about the Group's management and overall corporate activities to stakeholders in an easy-to-understand format. CSR Book 2016 was made to supplement *Corporate Report 2016* and contains detailed non-financial data and information on the CSR activities conducted for the benefit of Showa Shell's various stakeholders.

## Reporting Period

Information contained in this publication is based on corporate performance during fiscal 2015 (January 1, 2015, through December 31, 2015). In some cases, the report also describes activities conducted in fiscal 2016.

## Scope of Reporting

In principle, this publication covers the 21 consolidated subsidiaries and 14 equity-method affiliates that constituted the Showa Shell Group as of December 31, 2015. In the event that reporting is outside this scope, this fact is indicated.

## Reference Guidelines for Presentation of Non-Financial Information

- ISO 26000, International Organization for Standardization: International guidance on social responsibility issued by International Organization for Standardization
- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines Version 4.0 (G4): International guidelines on corporate sustainability reporting
- International Integrated Reporting Framework Ver. 1.0: International framework for corporate reporting processes based on "integrated thinking" released by the International Integrated Reporting Council

Inclusion in SRI Index (As of June 30, 2016)



Showa Shell Sekiyu has been selected for the FTSE4Good Index (a socially responsible investment index) for 13 consecutive years starting in 2004.

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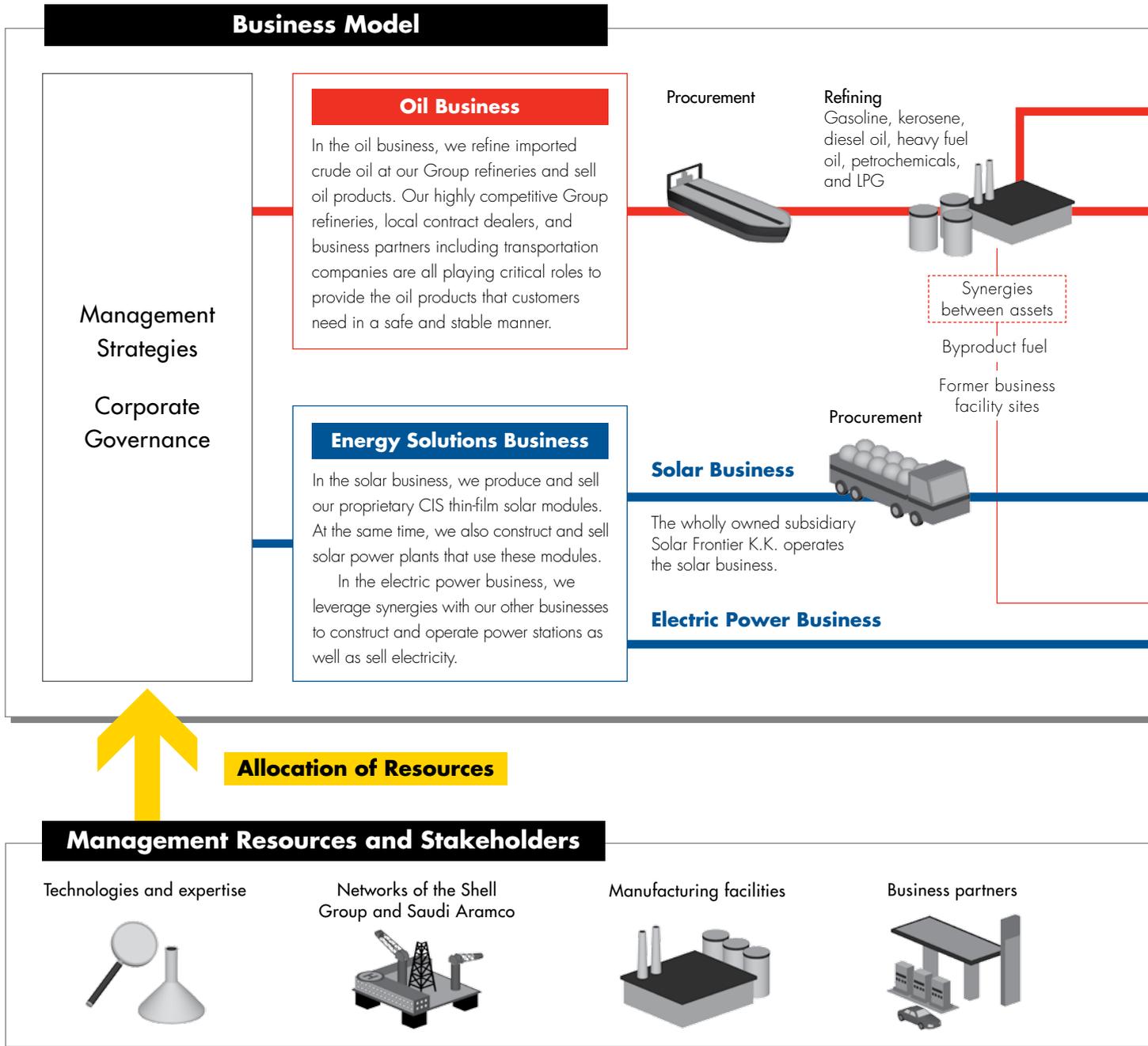
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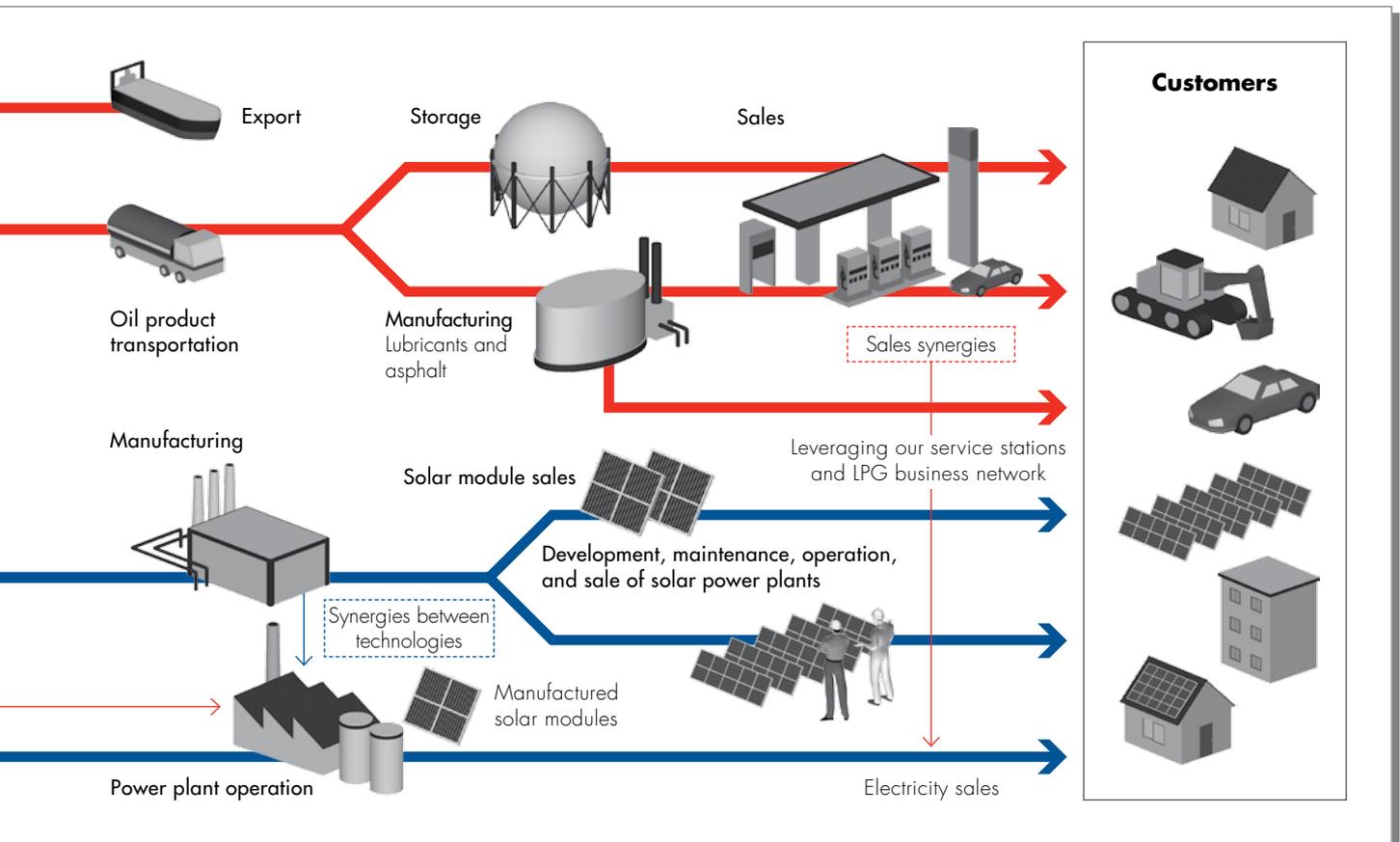
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# Business Model

The Showa Shell Sekiyu Group's goal is to support its customers and society as an energy solutions provider supplying safe and sustainable energy, with the Oil Business and the Energy Solutions Business as its two main businesses.





**Returns from Business Activities**



## Establishing Strong Corporate Foundations

The Showa Shell Group's Code of Conduct calls for the Group to engage in continuous and systematic initiatives in the fields of health, safety, security and environment (hereinafter, HSSE). In addition, the Code of Conduct places a high importance on HSSE in the Group's business activities and stipulates that Group companies must establish targets for improvement, measure and evaluate accomplishments made toward these targets, and file reports on the results.

To promote these initiatives on a Groupwide basis, the Group has established the Basic Policy for HSSE and, under this policy, is establishing a promotion structure and operating management systems.

### HSSE Definitions

Provide a working environment that ensures workplaces and businesses are safe, healthy, and comfortable for employees

Prevent threats due to crimes, disaster, and other emergencies, and respond appropriately in emergency situations

Health

Safety

Security

Environment

Ensure the personal and physical safety of sites and other locations, and maintain product quality

Preserve regional and global environments

● More information regarding HSSE policies can be found on the Company's website.  
<http://www.showa-shell.co.jp/english/profile/mp/hsse.html>

### Scope of Groupwide Application for the HSSE Management System

The Showa Shell Group has introduced the HSSE Management System (HSSE-MS), which is adopted by the Shell Group, at its Group companies, thereby managing risks related to health, safety, security and the environment in a comprehensive manner.

The Group has introduced HSSE-MS at all 20 of its consolidated

subsidiaries and 12 of its 14 equity-method affiliates. The Group has also introduced HSSE-MS at companies where focused risk management is necessary, primarily companies that operate refineries.

#### Group Companies (As of April 30, 2016)

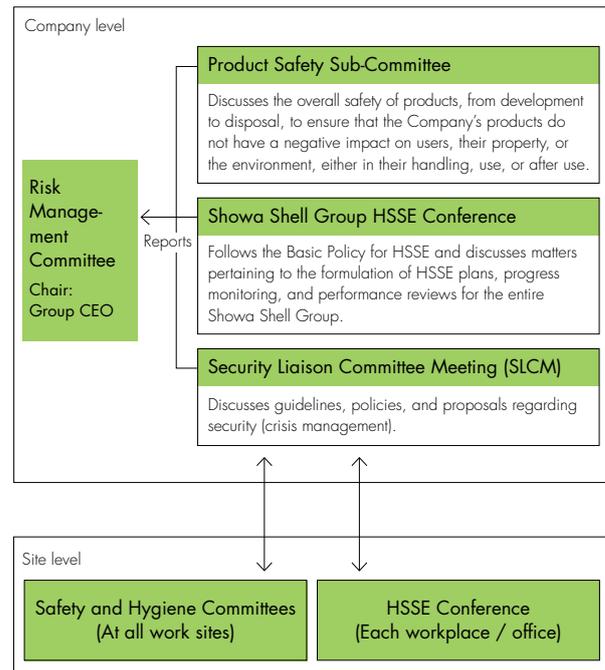
Company name	Major businesses
<b>Consolidated subsidiaries (20 companies)</b>	
Showa Yokkaichi Sekiyu Co., Ltd.	★ Oil refining
Toa Oil Co., Ltd.	★ Oil refining
Showa Shell Sempaku K.K.	★ Domestic and international shipping operations
Heiwa Kisen Kaisha, Ltd.	★ Depots operation, Shipping brokerage
Shoseki Engineering & Construction Co., Ltd.	★ Design and construction of mainly oil-related industrial facilities and service stations
Nippon Grease Co., Ltd.	★ Grease and lubricant sales
Solar Frontier K.K.	★ Development, manufacture, and sales of solar panels and systems
Shoseki Kako Co., Ltd.	★ Manufacture, sales, and installation of waterproofing materials
K.K. Rising Sun	★ Manufacture and sales of oil products and bitumen paving materials
Wakamatsu Gas K.K.	★ Automobile parts sales, Equipment lease, Insurance agent
Genex Co., Ltd.	★ Sales of oil products, City gas business
Leaf Energy K.K.	★ Power generation
Jonen Co.	★ Oil products sales
Chuo Shell Sekiyu Hanbai K.K.	★ Oil products sales
Tokyo Shell Pack K.K.	★ Oil products sales
Nakagawa Oil Co., Ltd.	★ Oil products sales

★ The company that introduced HSSE-MS

Company name	Major businesses
Petro Star Kansai Co., Ltd.	★ Oil products sales
Nissho Koyu K.K.	★ Oil products sales
Nagase Oil Ltd.	★ Oil products sales
Showa Shell Business & IT Solutions Ltd.	★ Provision of IT-related services
<b>Equity-method affiliates (14 companies)</b>	
Seibu Oil Co., Ltd.	★ Oil refining
Japan Oil Network Co., Ltd.	★ Storing
Niigata Joint Oil Stockpiling Co., Ltd.	★ Stockpiling
Dia Shoseki Co., Ltd.	★ Oil products sales
Shell Sekiyu Osaka Hatsubaisho K.K.	★ Oil products sales
Central Sekiyu Gas Co., Ltd.	★ Oil products sales
Mieseki Shoji K.K.	★ Oil products sales
Shell Tokuhatsu K.K.	★ Oil products sales
Joyo Shell Sekiyu Hanbai K.K.	★ Oil products sales
Marubeni Energy Corporation	★ Oil products sales
Toyotsu Petrotex Corporation	★ Oil products sales
Ohgishima Power Co., Ltd.	★ Power generation
Enessance Holdings Co., Ltd.	★ Sales of liquefied gas, Construction related to high-pressure gas and oil, Sales of residential and office automation equipment
Gyxis Corporation	★ Manufacture, storage, transport, sale, and import/export of LP gas

## HSSE Promotion System

We established the Risk Management Committee to serve as the highest HSSE decision-making body. This committee is responsible for all aspects of internal control, including HSSE and compliance. Matters discussed by the Risk Management Committee are all top priorities for our business activities, which is why Group CEO Tsuyoshi Kameoka chairs this committee and reports important matters discussed to the Board of Directors. Under the Risk Management Committee, there are three subcommittees devoted to specific areas of discussion, and members of these subcommittees include leaders of departments in the Showa Shell head office. In addition, there are site-level teams at individual worksites and divisions.



## HSSE Management System (HSSE-MS)

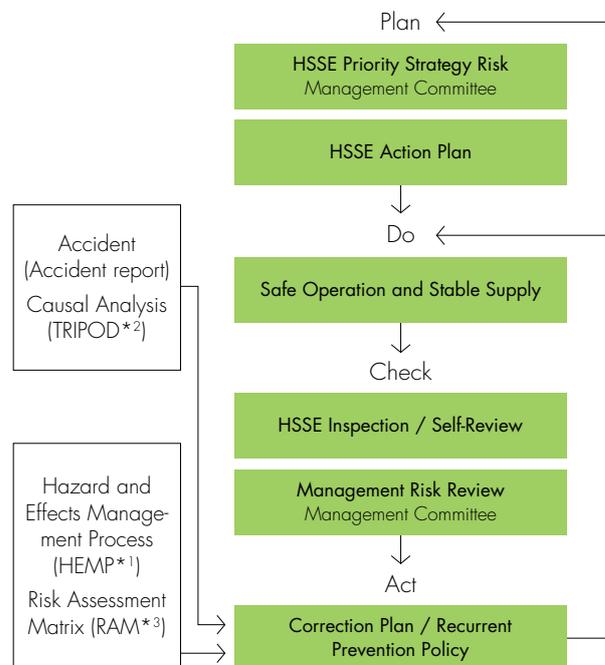
The Shell Group has developed the HSSE Management System (HSSE-MS) as a system to track and continuously improve HSSE performance. The system is also employed by the Showa Shell Group to help comprehensively manage risks related to HSSE. Investigations are conducted at individual worksites in accordance with the HSSE-MS to identify hazardous or environmental risks at relevant facilities. The potential impact of these risks is measured based on the chance of occurrence and projected damage or environmental impact. The scores are then used to prioritize the facilities and hazards for which responses are needed. Response measures for high-priority hazards are developed through the Hazard and Effects Management Process (HEMP),\*<sup>1</sup> and corrective plans are formulated. Group refineries and other principal operating sites have acquired certification under the ISO 14001 international environmental management standard, and we have instituted an environmental management system based on this standard.

\*1 Hazard and Effects Management Process (HEMP): A process used to confirm the disaster potential (hazards) related to tasks and equipment, and to envision the damage those hazards might cause. The risks of a hypothetical disaster are then assessed using a Risk Assessment Matrix (RAM), and the highest risks are analyzed using a HEMP Worksheet. Once an area for improvement is confirmed, a correction plan is formulated.

\*2 TRIPOD: An accident analysis technique used by the Shell Group

\*3 Risk Assessment Matrix (RAM): A management table for assessing the effects and incidence probability of risks by person, capital, environment, and popularity categories

### HSSE Management System



# HSSE

## HSSE Focal Point

As the persons in charge of HSSE, the head of each division and worksite selects "HSSE Focal Points," who serve to enhance communication among the heads of divisions/worksites, managerial staff, and employees, as well as to encourage HSSE activities at the workplace level. In 2015, we held a Companywide seminar targeting the HSSE Focal Points in each office and division on the risk evaluation and management for chemical substances handled by the Company. We also held seminars on formulating crisis management and business continuity plans that anticipate the occurrence of a major natural disaster. In these ways, we worked to increase the skills of each individual Focal Point.

## HSSE Audit

The Internal Audit Division conducts HSSE audits at the operating sites of each Group company, including affiliated companies, in conjunction with business audits. HSSE audits are conducted every two to four years depending on the size of the operating site, and we verify that all of the components of HSSE-MS have been put into place and

documented as well as that these components are being implemented effectively Companywide based on objective evidence. In the event that any shortcomings are discovered, we provide advice on how to make improvements.

## Implementation of Due Diligence for HSSE

When introducing a new business, establishing a major facility, or developing new products, we implement due diligence related to HSSE. In addition, when the circumstances change in an existing business, we once again carry out due diligence and work to make the necessary improvements. In addition, before we commenced operations at Keihin Biomass Plant, which was constructed on the former site of Ohgimachi Factory of Keihin Refinery (closed November 11, 2015), we performed a risk evaluation related to HSSE and examined measures for improvement.

## Health

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It is a social responsibility of Showa Shell to secure a safe workplace environment for its employees, and we also realize that such an environment is essential to the continuation of our business activities.

Based on the Labor Standards Act, the Occupational Health and Safety Act, and such internal rules as those related to HSSE, we have formulated the Safety and Hygiene Management Rules to ensure the safety of our workplaces and the mental and physical health of our employees. We endeavor to create an appropriate working environment in accordance with these regulations.

## Safety and Hygiene Committees

In accordance with the Occupational Health and Safety Act, Safety and Hygiene Committees have been established with membership consisting of representatives from the Company and from labor unions. These committees provide opportunities to discuss circumstances related to occupational health and safety throughout the Company. Feedback regarding issues is provided periodically and areas needing improvement are identified.

## Health Counseling Desk

We have set up a Health Counseling Desk on Heart and Body Health Plaza, an intranet site that is periodically updated with information on health-related topics. This site enables employees to seek counseling regarding their mental or physical health with full privacy.

## Employee Health Management and Mental Health

On the health front, we conduct employee health exams every year that are more extensive than legally required. Based on the findings of these examinations, we encourage employees to consult with industrial physicians or undergo extensive testing as deemed necessary.

Following revisions to the Occupational Health and Safety Act, we implement stress checks in accordance with laws and regulations as an opportunity to assess employees' mental and physical health. Furthermore, we monitor overtime levels, and have employees consult with an industrial physician if their overtime work hours exceed a certain limit.

## Safety

Maintaining safe, accident-free operations is not only core to the Showa Shell Group's competitiveness, it is also critical to retaining society's trust. For this reason, Showa Shell works to enhance safety awareness. In addition to having in place the Safety Rules, we have defined ways of responding quickly in the event of an accident—prescribing how to determine the causes of accidents and how to prevent recurrence—and have put in place a safety recognition system. In particular, we conduct the Safety & Quality First (SQF) Campaign with our contract dealers and business partners to ensure safety and quality assurance measures, with the aim of achieving zero accidents.

### Commitment to HSSE

There is no doubt that every company positions HSSE and compliance as a top priority in its corporate activities. Most important here, however, is to pour its heart and soul into such efforts.

Showa Shell, of course, has systems in place to promote the various activities. Moreover, the entire executive team, including myself, is always conscious of HSSE and compliance, and reminds employees that these two issues are our top priority whenever we speak to them. For example, at our periodic Town Hall Meetings held to explain the Company's performance and business strategies to our employees nationwide, we always begin with discussions of HSSE and compliance matters, including any accidents that have occurred. We pay special attention to accidents due to their potential to impede a stable supply. In executive meetings held at the start of each week, we receive reports on all accidents that occurred during the previous week, regardless of the scale of the accidents. Based on these reports, we share information on the causes of the accidents and possible measures with the relevant divisions and operating sites to raise caution levels. This high consciousness and strenuous effort set the foundations for Showa Shell's stable supply of oil products, and we intend to build upon such initiatives going forward.



**Tsuyoshi Kameoka**  
Representative Director,  
President, Group CEO

### Goal Zero Movement

We realize the extreme importance of preventing serious accidents that result in lost work time, as this is absolutely crucial to fulfilling our mission of providing a stable supply of products and earning customer trust. We approach this from both hard and soft perspectives. Hard initiatives include improving facilities and developing accident prevention guidelines and procedures. Soft initiatives include disseminating safety awareness, and one of which is the Goal Zero Movement. Since its launch in 2011, we have continued to advance the Goal Zero Movement with the aim of reducing accidents that result in lost work days and other accidents to zero.

In the period between June and August 2015, we promoted the "mutual pointing out" activity, whereby employees pointed out unsafe activities at the workplace to each other without reserve, which helped improve their safety awareness.

It is said that the majority of accidents are caused by unsafe activities during work, and it is often the case that the person engaging in an unsafe activity is unaware that he or she is doing so. By encouraging employees to communicate with each other during work and call attention to unsafe activities when seen, we are able to eliminate unsafe work practices. At all of our workplaces, we promote the "mutual pointing out" activity as well as activities to improve communication between employees before and after work. These activities are promoted not only during the period of the Goal Zero Movement but throughout the year as well.

### Total Recordable Case Frequency for Occupational Accidents

Showa Shell monitors the number of occupational accidents that have occurred across the entire Group, including affiliated companies. In addition to the Goal Zero Movement, which we promote Groupwide

as the situation demands, we carry out investigations for each accident that resulted in lost work time, which help prevent similar accidents from occurring, as well as promote the horizontal development of prevention measures. We also calculate the frequency of occupational accidents per one million labor hours in an appropriate manner.

#### Total Recordable Case Frequency



Incident rates (%) per one million labor hours

Figures include Showa Shell Group companies and business partners, and recordable cases of all occupational accidents, including those that do not result in lost work days.

### Safety Day 2015—A Day to Consider the Importance of Safety

Safety Day is a safety activity implemented across the Shell Group that establishes a day in which employees of the Group reaffirm their resolution toward safety. The Showa Shell Group participates in this initiative as part of its Goal Zero Movement. During Safety Day 2015, we prepared various discussion materials and held group debates at each individual workplace with the aim of further enhancing each employee's awareness toward safety.

### Announcement of “Goal Zero Declarations”

Based on the group debates held on Safety Day 2015, we have expressed our determination to take action and make efforts to achieve “Goal Zero” at each individual workplace by establishing “Goal Zero Declarations,” which work to improve safety awareness.

**“Goal Zero Declarations”**

- We will never use smartphones while walking (head office division).
- We will confirm that an appropriate workplace environment is in order through “pointing-and-calling” alerts before beginning our work (refineries).
- We will steadily practice the “report-contact-consult” work procedure and refrain from making arbitrary judgments (distribution division).
- We will maintain an awareness to mutually point out unsafe activities when we see them happening without considering such activities as being someone else’s problem (affiliated companies).

### Issuance of the Goal Zero Movement Newsletter by Executives

Showa Shell’s executives issue an annual newsletter during the period of the Goal Zero Movement that contains statements expressing their strong commitment toward HSSE. This newsletter acts as a means to spread the message of safety. In the 2015 newsletter, the opening message from Group CEO Tsuyoshi Kameoka was followed by messages on safety from the managers of each branch of the Showa Shell Group. The final pages of the newsletter featured a closing message from fulltime corporate executive officer Katsuaki Shindome. By having the executives reiterate their strong desire to accomplish Goal Zero through articles on safety, the newsletter helped raise the motivation of all Group employees to participate in the Goal Zero Movement.

### Survey on the Implementation of the Goal Zero Movement

Showa Shell held a survey of the HSSE Focal Point in each division and office regarding the initiatives of the 2015 Goal Zero Movement. The Focal Points gave high evaluations of the respective activities of their division or office, confirming the fact that Goal Zero Movement initiatives are being steadily implemented at each workplace. On the other hand, the survey revealed several issues. For example, as the work duties for each individual HSSE Focal Point differ depending on the division or office to which he or she belongs, there were some Focal Points who stated that they found difficulty in carrying out the activities of the Goal Zero Movement.

#### Survey Results

Percentage of HSSE Focal Points who felt that Safety Day 2015 was effective in enhancing safety awareness at their workplace	91%
Percentage of HSSE Focal Points who found the “Goal Zero Declarations” of their workplace to be effective	94%
Percentage of HSSE Focal Points who felt they were able to effectively utilize the Goal Zero Movement Newsletter	97%

### Safety Awards

Showa Shell has been holding the Safety Awards since 1992 as a means of raising safety awareness at all Group companies and increasing the overall level of safety throughout the Group. At the awards ceremony held in March 2015, a total of 26 worksites were presented with the Safety Excellence Award for being free of accidents and other incidents for a whole year, while four worksites received the Special Safety Award for going a specified amount of time without experiencing any incidents.



### HSSE Site Visits by Executives

Showa Shell has been implementing HSSE site visits by executives since 2006. In 2015, these visits were carried out under the theme of “promoting the ‘mutual pointing out’ activity during work.” Through these visits, executives are able to directly confirm the status of HSSE initiatives, share information on issues, and promptly implement an appropriate response to any areas that need improvement. In doing so, these visits provide an opportunity for each workplace to improve its HSSE performance. Furthermore, in addition to HSSE site visits by executives, we commenced the “HSSE Regional Reciprocal Visits” in 2015. In this activity, the managers of regional offices and branches visit the worksites within the region they oversee and work to improve mutual understanding and strengthen cooperation related to safety and crisis management in a manner that transcends divisional boundaries.



Group CEO Tsuyoshi Kameoka visiting Yamaguchi Refinery of Seibu Oil Co., Ltd.



## Security

As a company that handles the energy that is essential to our way of life, our social mission is to provide a stable supply of products and services even in the event of disaster or other emergency. Accordingly, we have in place structures to ensure business continuity, have drafted emergency response plans, and conduct regular drills as part of our efforts to strengthen our Group crisis management system.

### Initiatives at Group Refineries

To ensure safety at Group refineries,<sup>\*1</sup> we operate HSSE-MS<sup>\*2</sup> and implement comprehensive and continuous improvement activities. In addition, we actively pursue “activities to share information about near-misses” to reduce risks in employees’ immediate surroundings, where there is a direct possibility for a major disaster or accident to occur. With regard to quality, we have created various types of workflows and are working to ensure thorough management of product quality, which has allowed us to acquire certification from third-party institutions. These include the JIS mark and certification under the ISO 9001 international quality management standard. For disaster prevention, we conduct drills in cooperation with our business partners and government agencies in anticipation of various disaster scenarios. For example, we carry out a comprehensive disaster-prevention drill to prepare for a major earthquake or tsunami that follows the occurrence of a major earthquake as well as an oil clean-up drill to train employees on how to respond to a major oil leak. Conducting these drills on an ongoing basis enhances employees’ response skills, and enables us to periodically revise and improve our systems to assure the safety of operations in the event of an emergency.

\*1 Group refineries refer to Keihin Refinery of Toa Oil Co., Ltd., Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd., and Yamaguchi Refinery of Seibu Oil Co., Ltd.

\*2 HSSE-MS refers to the comprehensive management system for risks related to HSSE that is adopted by the Shell Group (see page 4 for details).

### Transportation Division Initiatives—Sea Transport

In 2004, we began enhancing the inspection procedures (inspection and screening systems) used by Showa Shell Group inspectors in examining domestic shipping vessels chartered by the Group to ensure their safety and soundness. Our ship inspection methods include participation in the Ship Information Report Exchange (SIRE) program of the Oil Companies International Marine Forum (OCIMF) as well as adoption of the procedures employed by Shell International Trading and Shipping Company Limited (STASCO). Should an inspection uncover any safety-related issues, the Company shall request corrective measures be taken with regard to the vessel in question or prohibit the chartering of the vessel.

For international shipping, we have participated in the SIRE program since 1993 and only charter vessels that meet the safety standards of STASCO. Furthermore, Group inspectors examine time charter vessels that are frequently used by the Group to directly confirm their safety and soundness.



### Transportation Division Initiatives—Ground Transport

Trucks used by the Group are equipped with leak prevention devices as well as GPS for preventing shipment errors. In addition, rules that must be followed to prevent accidents while in service are compiled in the Driving Standards, and we work to ensure that drivers are well trained and that vehicles are well maintained. In addition, we implement the Safety & Quality First (SQF) Campaign to promote safety and quality assurance throughout the Group and among contract dealers and business partners. Through this campaign, we ensure strict adherence to safety and quality confirmation procedures and other basic measures, thereby working to reduce the number of accidents involving trucks.



### Initiatives of the Fuel Sales Division

To deliver reliable products and services at our service stations, we make use of the *SS-HSSE Check Book (Green Book)*, which systematically organizes the points of focus for safety and quality management by on-site staff, to conduct daily safety management. The main points of the *Green Book* are as follows.

- Mandatory criteria to comply with laws and ordinances (Fire Service Act, waste disposal, etc.)
- Quality control (unloading tank trucks, refueling customer vehicles)
- Crime prevention and crisis management (crime countermeasures, disaster response)
- Accident prevention (precautions to take in each kind of work)
- Education and training (response to accidents and educational activities on accident prevention)



In 2015, in addition to our daily efforts in safety management, we worked to improve the level of safety and quality control at our service stations by implementing nationwide plans for such efforts as having a station attendant present to conduct a survey when tank trucks are being unloaded.

### Comprehensive Disaster Response Drills

Showa Shell has formulated a crisis management plan (CMP) and a business continuity plan (BCP) to prepare for crises. These plans include provisions to guarantee that products can be ordered and shipped anywhere in Japan even if an earthquake strikes directly below the Tokyo metropolitan area or in the Nankai Trough, if there is an outbreak of a new strain of influenza, or if some other disruption occurs. The plans also provide for the continuation of business activities in the event that the head office ceases to function due to

such disruptions. We conduct yearly drills based on these plans.

In May 2015, we instituted a drill in which employees responded to a simulated earthquake in the Nankai Trough (magnitude 9). This drill included disruptions to the refining capabilities of Group refineries and to product shipping functions. The drill also assumed that the earthquake had damaged electricity, communications, and transportation infrastructure used by worksites in a wide-ranging area centered on the Tokai, Kinki, and Chugoku regions.

This drill was conducted twice, and none of the participants were informed of the scenario prior to training. The first drill was conducted in accordance with the Company's CMP. After the outbreak of the simulated earthquake, employees set about establishing a Disaster Control Headquarters, performing mock procedures for assessing the damage inside and outside of the Company, formulating response measures, and verifying timetables for the head office taskforce. In addition, we simultaneously tested the safety confirmation email system in which all Group employees are enrolled and drilled procedures for confirming the safety of head office staff.

The second drill tested our BCP. This drill entailed developing the procedures necessary for recovering the shipping functions of principal Group refineries and continuing oil product supply from the day following the simulated earthquake. To this end, employee representatives responsible for related manufacturing, supply,



distribution, and sales functions were assembled to discuss the matter. Based on issues uncovered during both of these drills, we instituted improvements to both the CMP and the BCP.

### Fire-Fighting Drills

As we operate potentially hazardous facilities that face the possible risk of complex, large-scale fire incidents, employees must be able to accurately predict how a fire will react to given circumstances and how to fight fires strategically. Niigata Disaster Control Training Center serves as a place for cultivating flexible and proficient firefighting capabilities. At this facility, trainees face actual fires, allowing them to develop an understanding of how fires act, and are included in team drills where their decisiveness is put to the test. Since opening in 1993, the center has been a site for fire drills not only for Company employees, but also for companies in and outside of Niigata, thereby helping Showa Shell fulfill its social responsibility by coexisting with and contributing to the community. It is also used by local fire-fighting brigades and schools. These lecturers were highly evaluated for their specialized knowledge. In the 22 years since the center first opened, 6,157 people have undergone training there.

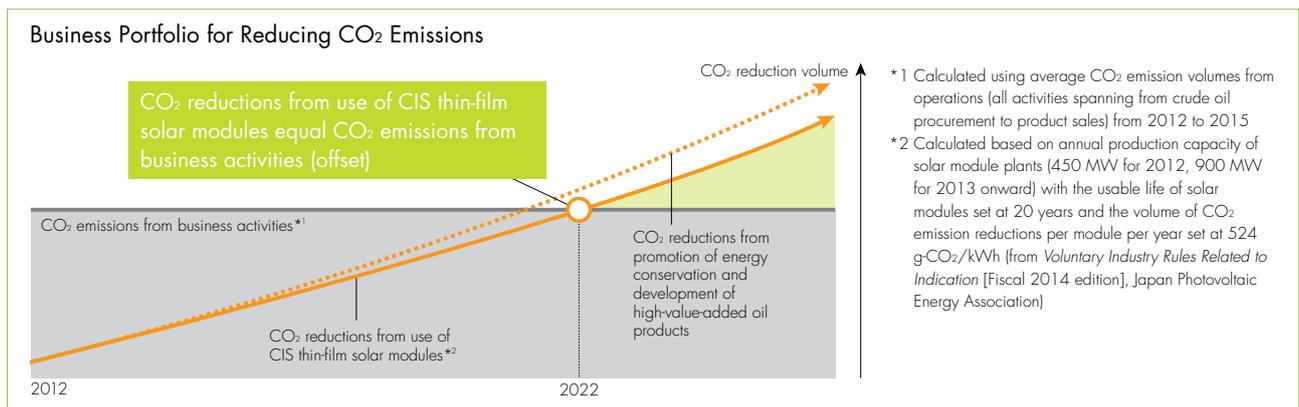


## Environment

The Showa Shell Group is dedicated to helping resolve environmental and other social issues. To this end, we are working to reduce energy use and environmental impact throughout all business processes. At the same time, we are providing high-value-added energy by promoting the use of eco-friendly oil products and solar modules.

We have a particular focus on solar modules, which provide renewable energy. Spreading the use of this energy source is anticipated to result in substantial reductions in CO<sub>2</sub> emissions. Accordingly, we forecast that in 2022 the reductions in annual CO<sub>2</sub> emissions realized through our provision of solar modules will equal the volume of CO<sub>2</sub> emissions from our business activities, thereby effectively offsetting these emissions.

Going forward, our quest to contribute to the development of a low-carbon society will continue. We will pursue ongoing reductions in the environmental footprint of our business processes. At the same time, we will develop higher-performance solar modules and oil products while supplying electricity from eco-friendly power sources, such as solar power and biomass power.



## Structure for Promoting Environmental Preservation and Medium-Term Environmental Action Plan

Showa Shell has formulated its Environmental Preservation Guidelines in accordance with the Basic Policy for Health, Safety, Security and Environment. Based on these guidelines and the guidance of the HSSE Division, we employ and operate HSSE-MS at each Group company to improve our environmental performance on a continuous basis. In addition, refineries and other worksites with large environmental footprints have acquired certification under the ISO 14001 international environmental management system standard. The combined footprint of the worksites that hold this certification accounts for 99% of the total environmental impact from all worksites. Moreover, to perform focused and systematic management of our concerted Group efforts to protect the environment, we formulated the Medium-Term Environmental Action Plan based on the approval of the Risk Management Committee. This plan covered the period from 2013 to 2015 and was concluded with all of its goals met. A new

plan was thus established for the period from 2016 to 2018. This plan defines targets for water use, an area in which the Company is expected to enact even more responsible measures, as well as for the supply of biomass power and other forms of renewable energy. These goals will be pursued over the medium term.

## Important Areas for Reducing Environmental Footprint

The majority of the environmental impact from Showa Shell's business can be attributed to either the manufacturing processes at Group refineries, where all crude oil refining is conducted, or the consumption of oil products by customers. These two areas are therefore important in reducing our environmental footprint. To lower the impact from Group refineries, we are making capital investments related to environmental preservation and implementing energy-saving measures. In regard to consumption, we are reducing our environmental impact by promoting the use of eco-friendly oil products and solar modules.

## Preventing Environmental Pollution and Reducing Waste

The Group emits large quantities of greenhouse gases from energy use during the process of manufacturing oil products, namely the consumption of purchased electricity and fuel for in-house generation. We therefore track the volume of CO<sub>2</sub> emitted through fuel use across all areas of the supply chain, from raw material procurement to product sales. In 2015, total CO<sub>2</sub> emissions amounted to 6,009,000 tCO<sub>2</sub>, of which 84%, or 5,068,000 tCO<sub>2</sub>, was emitted by Group refineries. For this reason, we position energy conservation measures at refineries as a high priority for preventing climate change. In addition, we are promoting energy-saving initiatives in each of our supply chains in order to reduce the total amount of greenhouse gas emissions Groupwide.

## Efforts during Crude Oil Procurement

When the very large crude carriers (VLCCs) that we use when transporting crude oil from the Middle East to Japan pass through a strait or enter the ports they serve, they travel at reduced speeds to reduce both fuel consumption and CO<sub>2</sub> emissions.

## Initiatives at Group Refineries

The Company conducts the in-house generation of electricity by utilizing certain intermediary products created through the refining process used to manufacture oil products, and this results in a substantial amount of greenhouse gas emissions. For this reason, it is incredibly important for us to conserve energy as a means of preventing global climate change.

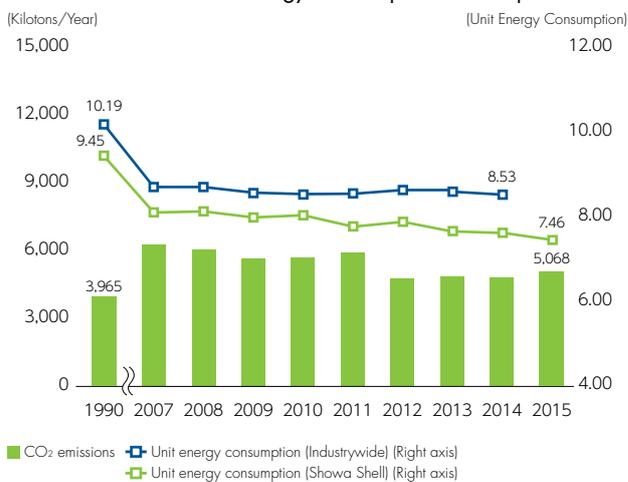
The Petroleum Association of Japan's Action Plan for a Low-Carbon Society sets the target of realizing a total reduction in energy use among all companies in the association of 530,000 KL (crude oil equivalent) by fiscal 2020. Showa Shell is participating in this plan, as stipulated by the Medium-Term Environmental Action Plan, and has adopted specific targets for the Company. We are advancing energy conservation measures, which include investing in equipment for Group refineries such as heat exchangers, waste heat recovery

boilers, and exhaust gas recycling equipment while also pursuing the optimization of refining facility operations.

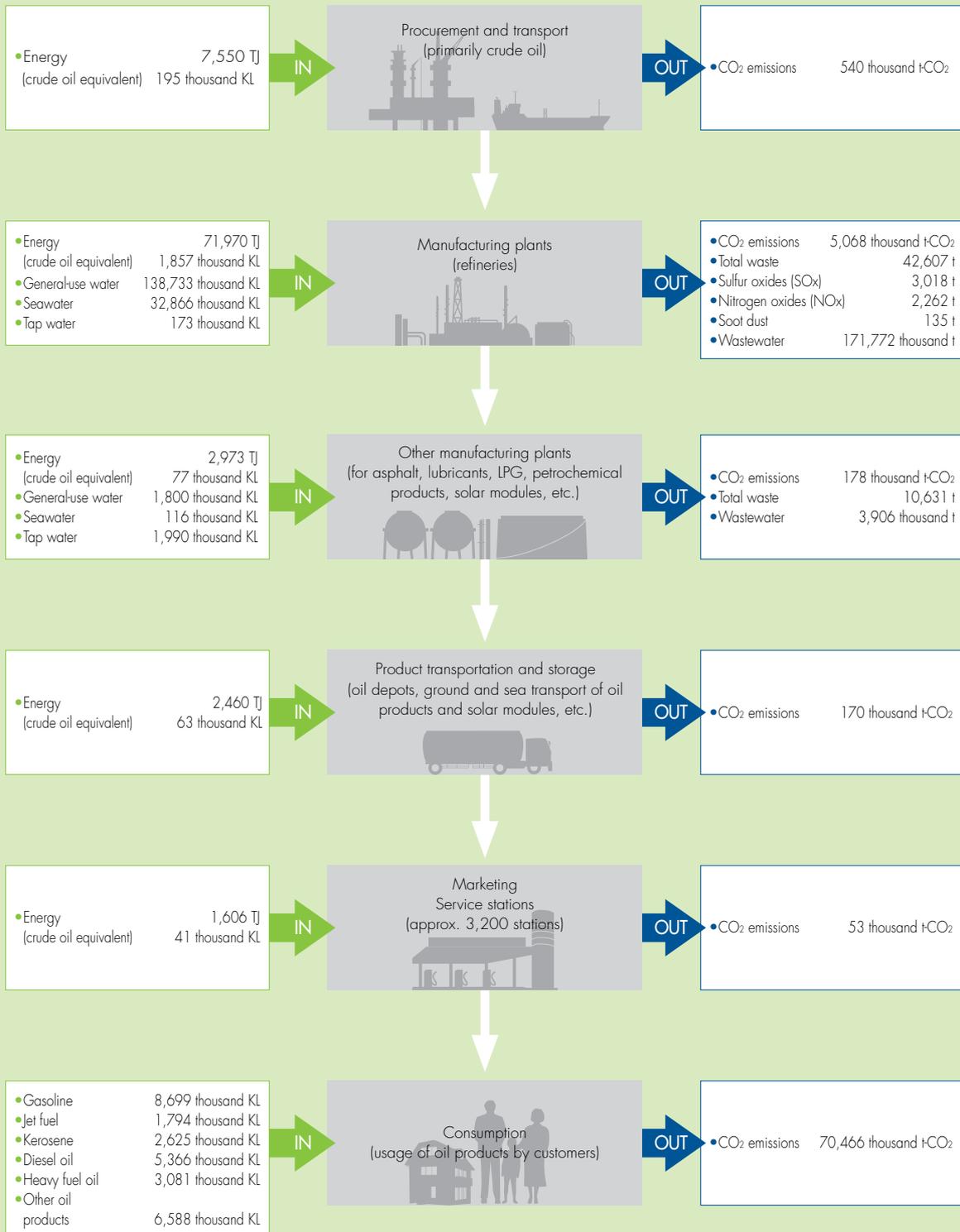
Furthermore, we are working to reach our target of reducing unit energy consumption by more than 1% annually on average over the medium to long term, as mandated by the Act on the Rational Use of Energy. In 2015, unit energy consumption at Group refineries was 7.46, down 21% compared with 1991, meaning that we are steadily achieving our targeted 1% average annual reduction.

In addition to the CO<sub>2</sub> emitted from energy use at refineries, manufacturing processes release emissions of other greenhouse gases regulated under the Act on Promotion of Global Warming Countermeasures, namely CO<sub>2</sub>, methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), and sulfur hexafluoride (SF<sub>6</sub>). We track emissions of these gases for each refinery and report the resulting figures to the appropriate authorities.

## CO<sub>2</sub> Emissions and Unit Energy Consumption at Group Refineries



Showa Shell Total Adverse Environmental Impact for 2015



2015 carbon offset volume of aggregate OFFSET total of solar modules produced as of December 31, 2015

**OFFSET**

Approx. 2,000,000 tCO<sub>2</sub>\*

\* Calculated based on annual production capacity of solar module plants (450 MW for 2012, 900 MW for 2013 onward) with the usable life of solar modules set at 20 years and the volume of CO<sub>2</sub> emission reductions per module per year set at 524 g-CO<sub>2</sub>/kWh (from *Voluntary Industry Rules Related to Indication* [Fiscal 2014 edition], Japan Photovoltaic Energy Association)

## Initiatives at Solar Module Plants

CIS thin-film solar modules are designed and manufactured with a high degree of environmental awareness, from the materials they use to their recycling processes. Compared with modules made of crystalline silicon, the generation layer of these modules is only 1/100th as thick, which saves on raw materials. Also, the production process is simple and short, and they can be produced with relatively little energy. Furthermore, at Solar Frontier's flagship Kunitomi Plant we have improved production efficiency, and also realized more-efficient transportation by changing the materials used to package solar modules. On the operations front as well, we are reducing our environmental footprint through such measures as adjusting freezer temperatures and exhaust fans to achieve efficient operations. In addition, a portion of the electricity used in our plants is supplied by mega-solar facilities installed on the site of our Miyazaki Plant and the roof of our Kunitomi Plant. These facilities have a combined generation capacity of three megawatts.



Kunitomi Plant

## Initiatives at Other Plants

Plants are pursuing energy savings and CO<sub>2</sub> emission reductions through measures that include conserving electricity, decreasing peak-hour energy usage, and optimizing boiler operation. At lubricant plants, we are conserving electricity by adjusting compressor output for different manufacturing processes and utilizing ideal blending times. In pursuit of further energy savings, we practice optimal boiler operation, and are installing LED lighting and solar panels at production plants. Through these efforts, we aim to realize an average reduction in unit energy consumption of 1% per year.

## Logistics Initiatives

### Ground Shipments

We are working to avoid sudden acceleration—which also has safety implications—while also stopping engines when vehicles are idling and using other eco-friendly driving techniques. In addition, we are using larger tank trucks for transportation to reduce the number of trucks we dispatch, and otherwise improving transport efficiency. Through these efforts, we aim to curtail CO<sub>2</sub> emissions.

## Preventing Environmental Pollution

### Atmospheric Pollution Prevention

Sulfur oxides (SO<sub>x</sub>) and nitrogen oxides (NO<sub>x</sub>) are produced by fuel oils and gases in refinery furnaces and boilers. The Group strictly maintains SO<sub>x</sub> emissions below regulated levels by using low-sulfur fuel oil and sulfur-free fuel gas treated with gas-cleaning equipment. Efforts

## Maritime Shipments

In maritime transportation, we promote the use of larger domestic vessels and endeavor to reduce CO<sub>2</sub> emissions by improving transportation efficiency and reducing fuel consumption. To this end, we keep two fuel-efficient electric propulsion vessels in continuous operation. In addition, we are maintaining low-fuel consumption levels by raising fuel efficiency through the use of a fuel-saving supplement on all vessels and by monitoring their transport speeds.

## Initiatives at Sales Locations

After the Great East Japan Earthquake, Japan was presented with a tight supply and demand situation for electricity. To help address this issue, we installed solar modules manufactured by Solar Frontier on the upper canopies of several of our service stations over the period from 2011 to 2012. As of December 31, 2015, a total of 425 service stations were equipped with these solar modules and using them to power lighting and other equipment. In addition, we install LED lighting when opening new service stations or remodeling existing stations with the aim of realizing energy savings.

## Initiatives at Offices

Preventing global warming requires all employees to act in their daily lives. Based on this recognition, we are taking steps to reduce CO<sub>2</sub> emissions at the Showa Shell head office. For example, lighting is turned off during lunch breaks and when employees are not present to conserve electricity, and restroom water heaters are deactivated and tap water heaters are removed during the summer months. Initiatives in place at all office buildings include encouraging employees to use their own cups, designating certain days as no-overtime days, and asking drivers to stop their engines when vehicles are idling.

## Use of Renewable Energy

At Group service stations and solar module plants, we install solar modules produced by the Group and utilize the energy that they generate. In 2015, we used 56,000,000 kWh of energy generated in this manner, which accounts for about 3.4% of the 1,663,864,000 kWh of energy used at our domestic refineries.

to prevent atmospheric pollution by NO<sub>x</sub> emissions include improved combustion methods achieved through the introduction of low NO<sub>x</sub> burners and the installation of flue gas denitration equipment. Through these efforts, we are working to prevent atmospheric pollution.

### Soil Contamination Countermeasures

The Showa Shell Group conducts soil contamination surveys and implements countermeasures at approximately 1,000 service station sites. We continue to conduct these surveys when facilities are closed or remodeled. We also participate in a committee for reviewing the application of the Water Pollution Control Act and the Soil Contamination Countermeasures Act, and provide feedback based on the knowledge and experience gained from our own countermeasures.

### Chemical Substance Management

The Company practices proper management of the chemical substances used in its manufacturing processes, basing management procedures on domestic and overseas laws and in-house chemical substance management regulations.

For chemical substances contained in the Company's products, we perform evaluations and management based on the Occupational Health and Safety Act, the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof (PRTR Law), and the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. In addition, the Company conducts labelling in accordance with the Globally Harmonized System of Classification and Labelling of Chemicals (GHS) scheme, maintains safety data sheets, and takes other appropriate measures including steps to track chemical release and transfer volumes and submit the necessary reports.

Furthermore, we quickly and appropriately respond to any revisions and additions to industry lists of chemical substances to be managed

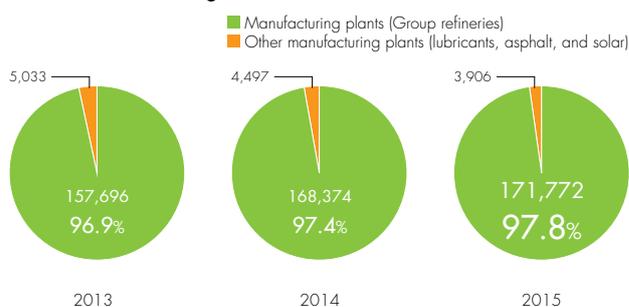
as well as to users' own lists. In this manner, we endeavor to supply customers with minimal-risk products.

### Water Use and Water Pollution Prevention

In addition to energy, the manufacturing process for oil products uses large quantities of water. Within our oil refineries located along coastal areas, we have installed in-house power generation equipment as well as power generation facilities used for the electric power business. A large quantity of seawater is used to cool these facilities during their operation. As such, nearly 80% of the water used by the Company is seawater.

We primarily collect and use industrial water for processes that require fresh water. Japan has a relatively stable supply of water from rivers compared to other countries, which means the risk of not having enough water to operate our facilities is minimal. However, we consistently monitor the amount of water we use and have established procedures in anticipation of a limited water supply during times of drought in order to continue smooth facility operation.

Trends and Percentages for Amount of Water Used Unit: 1,000 KL



### COLUMN Water Use at Each Group Location

#### • Refineries

For refining facilities at our refineries, we collect tap water, industrial water, and seawater. The majority of seawater (138,133,000 KL) is used to cool these facilities and the majority of industrial water is used for cooling purposes during the refining process or injected into boilers. Currently, we are working to reduce the amount of industrial water we collect in such ways as recycling water through cooling systems.

In addition, industrial and tap water used in the refining process are treated through stringent wastewater purification measures, carried out either via oil separators, chemical treatment using flocculating agents, or the use of activated sludge treatment equipment. In this way, we ensure that wastewater meets environmental regulations related to chemical oxygen demand (COD) and oil content before it is expelled.

Furthermore, the new Medium-Term Environmental Action Plan that began in 2016 contains goals aimed at realizing the sustainable use of water resources, and the Group will band together in its ongoing quest to monitor water use at refineries and other worksites and optimize usage practices.

#### • Other Manufacturing Plants (Lubricants, Asphalt, and Solar)

The amount of water used at our facilities other than refineries, including lubricant plants, asphalt terminals, and solar module facilities, accounts for only 2.2% of our total usage amount. For water used at solar module facilities, which alone accounts for 2.0% of our total usage amount, we strictly manage water quality and dispose of wastewater after confirming the absence of pollutants.

### Biodiversity Protection Initiatives

Showa Shell recognizes the importance of protecting biodiversity, and is taking action to this end. For example, we have defined our basic stance on the subject in the Basic Policy for Biodiversity and became a promotion partner for the "The Declaration of Biodiversity by Keidanren" issued by the Japan Business Federation (Keidanren). In addition, we provide donations to The Nature Conservation Society of Japan.

We implement measures to reduce the impact of production sites

on biodiversity in regard to wastewater discharge, water quality, and the release of chemicals. Also, to curtail the movement of microorganisms that might cause environmental or human health problems and to preserve biodiversity, the ballast water on our very large crude carriers that is loaded when the vessel is empty is replaced in the open ocean before the vessel arrives at its destination. For land that is used or developed by the Company, we carry out due diligence related to HSSE and implement environmental assessments.

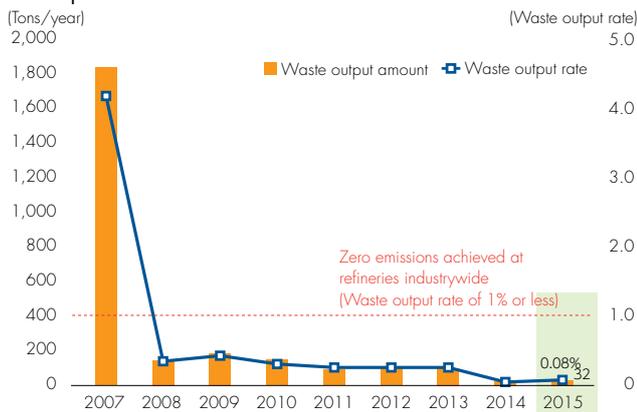
## Waste Reduction Initiatives

### Industrial Waste Reduction

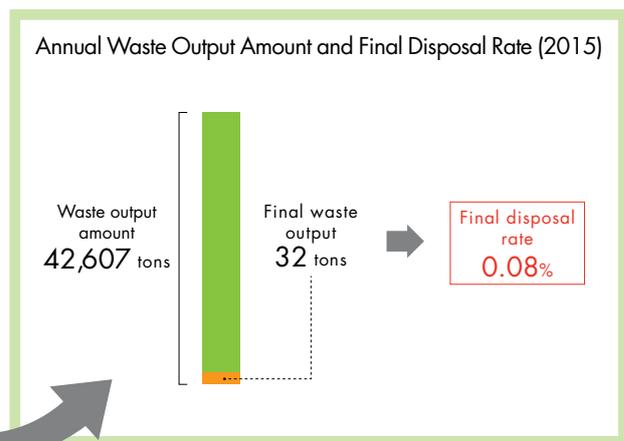
The Showa Shell Group tracks industrial waste production volumes at its 16 manufacturing plants. In 2015, the total volume of waste produced was 53,238 tons, of which 80%, or 42,607 tons, was from Group refineries (primarily disposable catalysts from desulfurization, reforming, and other refining processes; sludge from cleaning tanks; and sludge retrieved from wastewater treatment equipment). In the Medium-Term Environmental Action Plan, we have defined our

goal of achieving zero emissions, meaning an industrial waste output rate of 1% or less. This goal is being pursued by reducing and detoxifying waste from refineries through intermediate treatment, such as combustion, dehydration, and dissolution, and actively recycling waste for use as raw materials for cement or other applications. In 2015, industrial waste output was 32 tons, or 0.08% of total waste, and with this result we successfully achieved our goal, and have continued to do so since 2008.

#### Amount and Rate of Final Industrial Waste Output from Group Refineries



\* Scope: Keihin Refinery of Toa Oil Co., Ltd., Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd., and Yamaguchi Refinery of Seibu Oil Co., Ltd.



### Locations Where Showa Shell Tracks Waste Production Volumes

Showa Shell tracks waste production volumes at domestic locations included in the scope of its environmental management (tracking percentage: 100%).

#### Domestic Locations Where Showa Shell Tracks Waste Production Volumes

(Tracking percentage: 100%)

Showa Shell production bases (plants)	3 locations
Group production bases (plants)	13 locations

### Reducing Waste and Promoting Recycling in the Solar Business

Group company Solar Frontier K.K. is a member of PV Cycle, a European organization established to promote the collection and recycling of end-of-life solar panels. Solar Frontier is also participating in the joint development of Japan's first technology for solar power system recycling, a project being promoted by the Kitakyushu Foundation for the Advancement of Industry, Science and Technology.

In addition, packaging for solar modules at the Kunitomi Plant was changed from conventional cardboard boxes to reusable packaging using corner pieces, thereby reducing waste production.



Solar module packaging method

Medium-Term Environmental Action Plan (2013–2015)

ENVIRONMENTAL STRATEGY	ACTIVITY THEMES	MEDIUM-TERM OBJECTIVES
COMPLIANCE	Promoting energy conservation and global warming prevention	Reduce medium- to long-term unit energy consumption by more than 1% annually on average, based on the Energy-Conservation Act*
		Participate in the petroleum industry's Action Plan for a Low-Carbon Society, until fiscal 2020 (Refinery energy saving policy [total crude oil equivalent savings of 530 megaliters per year within the industry], usage of ETBE bio-fuels [500 megaliters of crude oil equivalent for the industry in 2017])
		Conserve energy and reduce consumption of resources in offices under the ECO TRY 21 campaign (Management of temperature and lighting, Cool Biz, turning off PC monitors, reduced printing)
CSR	Offering eco-friendly products and services	Achieve zero emissions at Group refineries (An industrial waste output rate of 1% or less)
		Promote soil and groundwater contamination countermeasures (Surveys at time of change in land development, preventive measures against groundwater pollution)
		Strengthen chemical substance management (Reduce use and storage of regulated chemicals)
BUSINESS	Promoting environmental preservation activities and environmental communication	Present opportunities for stakeholders to think about the environment (Environmental Photo Contest, "Things to Preserve and Correct around Our Town")
		Promote environmental preservation projects conducted cooperatively with employees and local communities (Area cleanup activities around worksites)
		Promote the environmental sciences
		Provide energy education program, Niigata Yukigunigata Megasolar Power Plant tours
	Offering eco-friendly products and services	Expand the use and sale of CIS thin-film solar modules
		Popularize gas to GTL fuels, which do not emit sulfur oxide (SOx)

\* Act regarding the rationalized use of energy

Medium-Term Environmental Action Plan (2016–2018)

ENVIRONMENTAL STRATEGY	ACTIVITY THEMES	MEDIUM-TERM OBJECTIVES
COMPLIANCE	Promoting energy conservation and global warming prevention	Reduce medium- to long-term unit energy consumption by more than 1% annually on average, based on the Energy Conservation Act
		Participate in the petroleum industry's Action Plan for a Low-Carbon Society, until fiscal 2020 (Refinery energy-saving policy [total crude oil equivalent savings of 530 megaliters per year within the industry], usage of ETBE bio-fuels [500 megaliters of crude oil equivalent for the industry in 2017])
		Conserve energy and reduce consumption of resources in offices under the ECO TRY 21 campaign (Management of temperature and lighting, Cool Biz, reduced printing)
CSR	Preventing environmental pollution and reducing waste	Achieve zero emissions at Group refineries (An industrial waste output rate of 1% or less)
		Promote soil and groundwater contamination countermeasures (Surveys at time of land development, preventive measures against groundwater pollution)
		Strengthen chemical substance management (Reduce use and storage of regulated chemicals)
CSR	Promoting environmental preservation activities and environmental communication	Present opportunities for stakeholders to think about the environment (Environmental Photo Contest, energy education program, Niigata Yukigunigata Megasolar Power Plant tours)
		Promote environmental and biodiversity preservation projects conducted cooperatively with employees and local communities (Participation in cleanup activities and forest and sea preservation activities around worksites)
		Contribute to the realization of a sustainable water environment (water usage monitoring and optimization)
BUSINESS	Offering eco-friendly products and services	Expand the use and sale of CIS thin-film solar modules
		Supply renewable energy (megasolar and biomass power generation)

## 2015 ACHIEVEMENTS

- As a specified business operator under the Act on the Rational Use of Energy, Showa Shell pursued energy savings, calculated energy consumption, and submitted the necessary reports to the Japanese government.
- Unit energy consumption of 7.46 was achieved (down 21% from 1990 levels).
- Showa Shell is participating in the Petroleum industry's Action Plan for a low-Carbon Society released by the Petroleum Association of Japan, and introduced highly efficient equipment primarily in refineries and optimized refinery operations to realize energy savings. In addition, we responded to the increased biofuel utilization requirement of the Sophisticated Methods of Energy Supply Structures Law, and produced ETBE compound biofuels at Group refineries. The Company worked to stably supply ETBE compound biofuels.
- We strove to maintain an appropriate office temperature, turn off lights during lunch breaks, have all employees participate in Cool Biz initiatives whereby employees wear cooler clothes in the hot summer months, exclusively use recycled paper, use double-sided printing for documents, conduct paperless meetings, and turn off PC monitors when unattended.
- A final disposal ratio of less than 1% (0.08%) of total waste generated at Group refineries was achieved.
- A final disposal ratio of less than 1% of total waste generated at Group refineries was achieved by reusing resources and reducing usage volumes, thereby meeting the zero emissions goal defined in the Action Plan released by the Petroleum Association of Japan.
- Soil contamination countermeasures were instituted when conducting land development that included improvements at dozens of sites and other contamination prevention measures.
- The Company worked together with the Ministry of the Environment to develop soil and groundwater contamination prevention measures that included groundwater contamination countermeasures.
- Showa Shell aided in formulating government proposals for industry measures regarding water, soil, and air pollution as well as global warming.
- The Company complied with relevant laws and regulations in Japan and abroad, and responded to environment-impacting substance inspections and chemical substance management system audits by users to ensure the reliability of Showa Shell products.
- JIS Z7253-compliant safety data sheets were completed for all products.
- Showa Shell held its 11th Environmental Photo Contest, "Things to Preserve and Correct around Our Town," which received 5,313 entries (151 in the elementary school category, 4,431 in the junior high school category, and 731 in the high school and technical college category).
- Employee volunteers from refineries and worksites in the cities of Niigata, Kawasaki, Sodegaura, Yokkaichi, Kobe, Ube, and Miyazaki participated in local greenification and beach cleanup activities. At Yokkaichi Refinery, a group of 1,500 people consisting of employees and members of local communities undertook cleanup activities as part of the "Suzuka River Cleanup Strategy." A total of four tons of garbage was collected through these activities. Solar Frontier employees in Miyazaki Prefecture have participated in the Kiyotake River Beautification Sports Festival sponsored by the Kiyotake River Pollution Prevention Committee each year since 2009 based on employee requests.
- Solar Frontier has participated in the *Teruha no Mori Ongaeshi* forest preservation project since 2013 to help protect the Aya no Shoyo Jurin Forest, as this precious forest is the groundwater supply for its Kunitomi Plant and has been designated as a UNESCO eco-park. In 2015, a total of 28 people consisting of employees and their families participated in thinning trees that had been introduced into this forest.
- The Energy Sustainability Forum was established in 2007 as an industry-government-academia joint project together with the Integrated Research System for Sustainability Science (IR3S) operated by the University of Tokyo. The 11th Energy Sustainability Forum was held in March 2016 based on the theme of realizing the best mix of renewable energy and revitalizing local communities through the development of natural capital businesses.
- Classes addressing the topics of environmental problems and new energy, a much-discussed world issue, have been held continually since 2004. Through participatory learning, these classes aim to deepen the understanding of these issues among the children who will support the future, and raise their awareness concerning ways to help resolve issues in everyday life. In 2015, the Energy Education Program for Children was held at elementary schools near our head office as well as those near Niigata Yukigunigata Megasolar Power Plant. In August, energy workshops for parents and children were also held at Niigata Yukigunigata Megasolar Power Plant in cooperation with the city of Niigata. A total of 410 people participated in these classes.
- We contributed to promoting an understanding of solar energy use in Japan's "snow country" (areas which experience heavy snow) as part of our social contribution activities by giving tours of the Niigata Yukigunigata Megasolar Power Plant to a total of 690 individuals, explaining how stable solar power generation is possible in a variety of climates (particularly in snow country).
- Megasolar project support systems were strengthened, and contributions were made to constructing megasolar power plants in Japan and overseas.
- To enhance sales channels for "Shell Heat Clean," we began accepting orders via telephone, expanding the range of purchase venues, which were previously limited to the Internet and some convenience stores.

## Status of ISO 9001 (Product Quality) Certification

As of December 2015

COMPANY / SITE	DATE OF CERTIFICATION	CERTIFYING ORGANIZATION
Yokohama Plant of Showa Shell K.K.	December 1995	LRQA
Nippon Grease Co., Ltd.	December 1995	LRQA
Showa Shell Kobe Plant	January 1996	LRQA
Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd.	February 1997	LRQA
Yamaguchi Refinery of Seibu Oil Co., Ltd.	August 1997	LRQA
Shosei Kako K.K.	May 2000	JICQA
Shoseki Engineering & Construction Co., Ltd.	December 2002	KHK ISO CENTER
SVC Tokyo Co., Ltd.	April 2006	Registration Body for IS, Inc.
Atsugi Research Center of Solar Frontier K.K.	June 2009	DNV
Miyazaki Plant of Solar Frontier K.K.	December 2009	DNV
Keihin Refinery of Toa Oil Co., Ltd.	December 2011	LRQA
Kunitomi Plant of Solar Frontier K.K.	March 2012	DNV
Solar Frontier K.K. Head Office	September 2012	DNV

## Status of OHSAS 18001 (Occupational Health and Safety Management) Certification

As of December 2015

COMPANY / SITE	DATE OF CERTIFICATION	CERTIFYING ORGANIZATION
Kunitomi Plant of Solar Frontier K.K.	September 2012	DNV

## Status of ISO 14001 (Environmental) Certification

As of December 2015

COMPANY / SITE	DATE OF CERTIFICATION	CERTIFYING ORGANIZATION
Yamaguchi Refinery of Seibu Oil Co., Ltd.	December 1998	LRQA
Keihin Refinery of Toa Oil Co., Ltd.	June 1999	LRQA
Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd.	July 1999	LRQA
Toyotsu Petrotex Corporation	December 2000	LRQA
Japan Oil Network Co., Ltd.	December 2000	JQA-ISO CENTER
Central Research Laboratory of Showa Shell K.K. SVC Tokyo Company	January 2001	JET
Hekinan LPG Terminal of Showa Shell K.K.	December 2001	KHK ISO CENTER
Nippon Grease Co., Ltd.	March 2005	JACO
Yokohama Plant of Showa Shell K.K.	June 2005	LRQA
Kobe Plant of Showa Shell K.K.	September 2005	LRQA
Central Research Laboratory of Showa Shell K.K.	October 2006	JET
Wakamatsu Gas K.K.	July 2010	JIA-QA CENTER
Atsugi Research Center of Solar Frontier K.K.	November 2011	DNV
Kunitomi Plant of Solar Frontier K.K.	September 2012	DNV

## Technology Development for Eco-Friendly Products

### R&D Activities

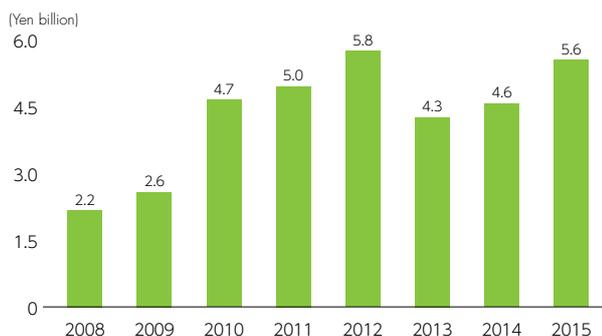
R&D activities for the Oil Business and the Energy Solutions Business (solar business) are conducted at the Group's Central Research Laboratory and Atsugi Research Center. We aim to fuel long-term improvements in corporate value through the development of next-generation energy sources and high-value-added products that respond to customer needs and provide superior environmental performance.



Central Research Laboratory (Kanagawa Prefecture)    Atsugi Research Center

### Trends in R&D Costs

Increase due to the expanding size of the solar business



### High-Value-Added Oil Product Development

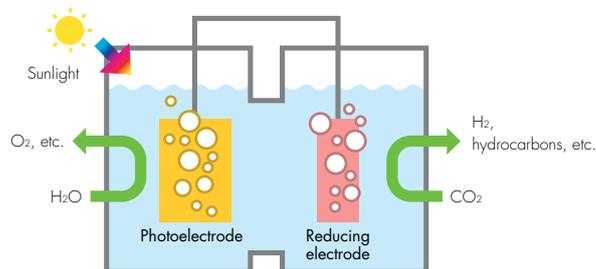
As part of the Shell Group's R&D network, the Central Research Laboratory is creating systems for cutting-edge product development by exchanging human resources and conducting joint-development with R&D centers in the United States and Germany as well as the Shanghai center established in 2014. While pursuing coordination between the refining, supply, distribution, and sales divisions, the Company is fully leveraging the technologies it has created through collaboration with the Shell Group to develop lubricants, grease, asphalt, fuel, and other oil products that respond to customer needs and provide superior environmental performance. In 2015, we accelerated our efforts to develop energy-saving, long-lasting lubricants using highly functional synthesized base oil that employs the Shell Group's gas to liquids (GTL) technologies, and create fuel-saving engine oil and gear oil. We also succeeded in developing asphalt that is eco-friendly and significantly easier to apply.

Please see pages 19 and 20 for details on our products.

### Next-Generation Energy Development

At the Central Research Laboratory, we are actively allocating management resources to R&D ventures aimed at developing next-generation energy sources, focusing on social issues, such as the environment, and the future needs of customers. We are collaborating with universities and exchanging information with the Shell Group with the goal of developing a technology for using nonedible biomass to manufacture low-cost biofuel that emits minimal amounts of CO<sub>2</sub>. The Company is also researching artificial photosynthesis, a process that uses sunlight to create beneficial chemical substances from water and CO<sub>2</sub>.

### Artificial Photosynthesis Process



### R&D Activities in the Energy Solutions Business (Solar Business)

Solar Frontier's Atsugi Research Center is advancing cutting-edge R&D activities related to CIS thin-film solar modules, striving to improve energy conversion efficiency at both the research and mass-production stages. We are also proceeding with the development of new, state-of-the-art products with the potential to open up new markets.

### Bendable Modules Creating New Possibilities for Solar Power

Solar Frontier's bendable solar modules utilize the unique characteristics of CIS thin-film solar module technologies that cannot be followed by conventional crystalline silicon module technologies. For example, compared to standard modules, a bendable and thin metal substrate is applied instead of the glass substrate, the cover glass is replaced with a high-performance resin film cover, and the frames are removed. As a result, the bendable solar modules weigh one-third less than standard modules, are ultrathin at only 1.5mm, and can be installed on curved surfaces. The ability to build these modules into various structures is expected to lead to wider applications, and CIS thin-film solar modules are thus thought to have big potential for creating new solar power markets.

## Development of High-Value-Added Lubricant Products

In the area of lubricants used for automobiles and factory equipment, Showa Shell is bolstering its development of high-value-added products that meet a wider range of customer needs, including those for superior environmental performance. These high-value-added products use the Shell Group's proprietary chemical synthetic oil *New XHVI*, created through GTL,\* as a base oil. Leveraging the deterioration-resistant qualities of *New XHVI*, these products

lengthen the time between oil changes and extend the operating life of machines and engines. Accordingly, these products have received high praise from customers for their superior environmental performance.

\* Gas to liquids (GTL) is a refining process that converts natural gas into liquid. The liquid produced through this process is almost completely free of sulfur and aromatic compounds.

### Automotive Lubricants

Showa Shell's automotive lubricants pursue higher levels of fuel efficiency using the Company's low-viscosity and specialty additive technologies. In addition, these lubricants extend the time between changing engine oil or gear oil, thereby contributing to lower maintenance costs. Furthermore, with their ability to thoroughly protect the equipment in which they are used, these lubricants respond to the need for extending automobile lifespans.

#### Product

#### *Shell Rimula R6 LME-J 5W-30*

Using *New XHVI* as its base oil, *Shell Rimula R6 LME-J 5W-30* is a diesel engine oil that protects a vehicle's engine, thereby extending its operating life. For *Shell Rimula R6 LME-J 5W-30*, we leveraged the high-viscosity index of *New XHVI* base oil to reduce the amount of viscosity index improver, a cause of sludge, as much as possible. Furthermore, the oil improves oxidation stability through additive compounding technology and therefore helps to reduce vehicle maintenance costs.



### Industrial Lubricants

In addition to an energy-efficient performance that helps reduce the amount of electricity used in equipment operation, our industrial lubricants lower equipment maintenance costs and extend operating life. Also, we are working to develop specialty products that reduce maintenance costs for customers, including high flash point lubricants that lessen the burden of maintenance, in compliance with the Fire Services Act.

#### Product

#### *Shell Tellus S3 VE*

*Shell Tellus S3 VE* is an ultra-functional hydraulic oil that uses *New XHVI* as a base oil and is categorized as an energy-saving, long-lasting combustible fluid. With its energy-saving effects, customers can count on *Shell Tellus S3 VE* to not only reduce power use but also lower oil temperature and ease noise and vibration. The oil also helps prevent equipment trouble, reduce maintenance costs, and lessen the environmental burden.



## Development of High-Value-Added Asphalt Products

Asphalt is used for a wide variety of applications, such as for roadway paving materials and building materials. Different applications require different levels of durability and safety as well as environmental

performance. As Japan's only integrated manufacturer of asphalt, Showa Shell is developing and selling high-value-added asphalt products that offer the functionality required for various applications.

#### Product

#### *CARIMEX ART*

*CARIMEX ART* is a polymer-modified asphalt product used for roads with heavy traffic that is able to be paved in a wide range of temperatures, leveraging our innovative technologies. *CARIMEX ART* significantly improves workability during the road pavement process, enhances pavement quality, and extends pavement lifespans. This asphalt makes it possible to expand the pavement area for one day and reduce the time it takes to open traffic after the pavement process is complete, thereby reducing the burden of road pavement work on the surrounding area.



Okazaki Higashi Interchange, Shin-Tomei Expressway

Product

**New Mellowphalte**

*New Mellowphalte* is a brightly colored asphalt product that harmonizes with townscapes and nature. *New Mellowphalte* has a wide range of uses, including for sidewalks, parks, bike paths, and roads with little traffic. This product boasts superior workability and also controls the unpleasant smells that occur during road pavement work. In addition, *New Mellowphalte* helps lower the temperature of road surfaces compared to regular black asphalt.

Installation



Todayji temple

Installation



Tokyo Skytree

Product

**Drainage ECO**

*Drainage ECO* is a polymer-modified asphalt product with excellent drainage and low-noise properties. As rainwater easily passes through its surface, *Drainage ECO* helps maintain drivers' vision during rainy weather, thereby providing a safe driving environment. Furthermore, the product's air gaps offer sound-absorbing effects, which help improve both driver safety and the roadside environment.

Installation



Shin-Shizuoka Interchange, Shin-Tomei Expressway

Product

**Reprophalte 300**

*Reprophalte 300* is a recyclable asphalt for re-paving. By helping to restore the chemical composition of road pavement materials that are repeatedly recycled, *Reprophalte 300* enhances the performance of recycled asphalt to a level near that of new asphalt. The product also improves the quality of recycled asphalt and increases the lifespan of road pavement.

Installation



Biomass plant

**Initiatives at Group Refineries**

Information regarding environmental activities conducted in 2015 by Keihin Refinery of Toa Oil Co., Ltd.; Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd.; and Yamaguchi Refinery of Seibu Oil Co., Ltd. can be found on the websites for each respective company (Japanese only).

# Quest to Provide Energy that is Truly Valuable

The Showa Shell Group's objective is to provide society with energy that is truly valuable. To accomplish this objective and realize sustainable growth for the entire Showa Shell Group, we strive to fulfill our responsibility toward our customers, business partners, employees, local communities, the greater society, shareholders, other investors, and various other stakeholders. At the same time, we are practicing strict compliance and constructing highly transparent governance systems in accordance with our Management Philosophy as well as the Code of Conduct based on this philosophy.

## ■ Together with Our Customers

Showa Shell strives to continuously improve customer satisfaction by providing the energy solutions that society and our customers require. In addition to providing products and services that offer customers value from all perspectives, including the environment, quality, and safety, we are reinforcing our foundations for communicating with customers together with our systems for developing the products and services that meet customer needs and ensuring their quality.

### Initiatives at Service Stations

Within the shrinking domestic fuel market, competition from both inside and outside the industry is becoming increasingly severe. Under these conditions, we have developed cooperative initiatives with our contract dealers, sales outlets, and service stations with the goal of "acquiring overwhelming levels of customer satisfaction through differentiation" in order to promptly and accurately meet the needs of our customers.

Beginning in 2010 with the introduction of *Ponta*, a joint point program among various industries, we have since introduced a new payment service, Shell EasyPay, and renewed the Shell Starlex Card. Additionally, in 2015 we further developed the Shell-*Ponta* credit card to respond to customer needs for credit cards with joint point programs. In this way, we offer an industry-leading credit card lineup. For products, we launched the new high octane gasoline Shell V-Power in 2014, which draws on the "Clean & Protect Technology"

that the Shell Group has cultivated through a technical partnership with Ferrari S.p.A. In 2015, we expanded the sales area of Shell V-Power, and the product has earned a high reputation among customers. As a result, Shell V-Power has expanded the ratio of high octane gasoline sales within our overall gasoline sales.

In addition to these initiatives, we commenced household electricity supply with the gasoline discount program "Drivers' Plan," a program geared toward gasoline and diesel fuel users, following the deregulation of the low-voltage electricity retail market in April 2016. By signing an electricity contract and registering a credit card or *Ponta* card, customers can receive ¥10 off a liter of gasoline and ¥5 off a liter of diesel oil when filling up at Showa Shell service stations. We also offer customers attractive and easy-to-understand electricity plans in our efforts to further reinforce our customer foundation.

Principal Retail Measures

Shell V-Power

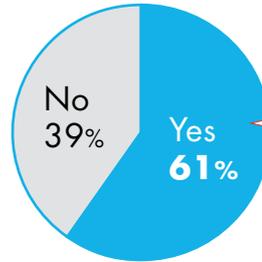
In July 2014, we launched the new premium gasoline Shell V-Power to respond to the desire of drivers to keep their highly valued vehicles running as long as possible and in top condition. Shell V-Power employs the Shell Group's unique "Clean & Protect Technology," which has been cultivated through its technical partnership with Ferrari S.p.A. This technology helps bring out the full potential of automobiles by effectively removing the deposits inside engines that cause lower performance, thereby cleaning and protecting engines the more automobiles are driven. Shell V-Power has been exceptionally well-received since its release, and its sales performance is among the best in the premium gasoline market. Moreover, Shell V-Power is now available in 46 prefectures throughout Japan, an increase from the 40 prefectures at launch.

● <http://www.showa-shell.co.jp/carlife/products/shell-vpower/index.html>



Did you feel the difference when using Shell V-Power?

Approximately 60% of users said yes.\*



Most Commonly Felt Benefits

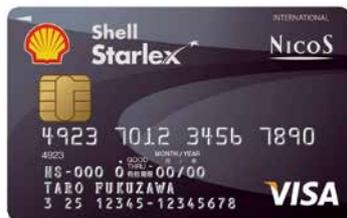
- No. 1 Increased power **54%**
- No. 2 Higher fuel efficiency **53%**
- No. 3 Faster acceleration **51%**
- No. 4 Improved responsiveness **48%**

\* Responses from 2014 customer feedback survey

Shell Starlex Card

The Shell Starlex Card is a credit card equipped with a cashback feature that provides returns on gasoline purchases. Currently, more than 1.2 million customers are carrying this card, and a significant number of them also tend to purchase large quantities of fuel. In April 2014, the Shell Starlex Card program was redesigned to enhance its benefits for cardholders by raising the rate of cashback to one of the highest levels in the industry, and cardholder numbers have increased rapidly as a result.

● <http://www.showa-shell.co.jp/carlife/cardservice/starlexcard/>



Shell Starlex Card

Ponta Joint Point Cards and Shell-Ponta Credit Cards

As of May 31, 2015, user numbers of the Ponta joint point program had grown to 70 million, meaning that roughly half of the Japanese population is carrying a Ponta card. This reward point system allows users to collect and use points at affiliated stores in a wide variety of different industries, all with just one card. Winning customer favor through true high convenience, Ponta cards have proven incredibly effective at drawing cash-paying customers to our service stations.

In April 2015, we began issuing Shell-Ponta credit cards, which combine the convenience of credit card payments with a reward point return rate that is even higher than that of standard Ponta cards. The point return rate is one of the highest for any joint-point card, and Shell-Ponta credit cards have therefore become immensely popular among cardholders of standard Ponta cards as well as new users picking up their first Ponta card. Currently, we have over 170,000 Shell-Ponta credit card members.



Shell-Ponta credit card

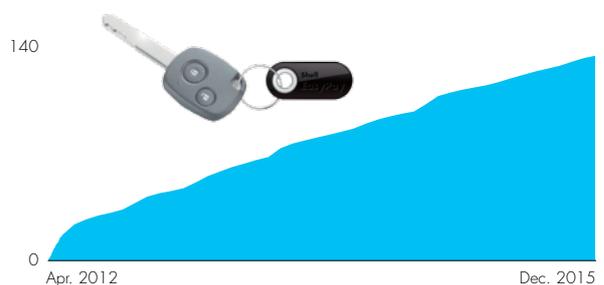
Shell EasyPay

Shell EasyPay is a system launched in response to customer requests for a means of making fueling and credit card payments at service stations quicker and easier. This system employs a device that fits on a key ring and is equipped with a contactless IC chip containing information on fueling patterns and payment methods. Fueling and payment can be completed simply by touching this device to specialized readers at service stations.

In addition to the Shell Starlex Card and Shell-Ponta credit cards, this system is also compatible with other types of credit cards. With Shell EasyPay, customers only have to grab their car key, get out of their car, and touch the device to the reader. This convenience is appealing to customers, and the number of customers using this system is growing rapidly.

Number of Shell EasyPay Registrations

(10,000 registrations)



## Initiatives to Improve Human Capabilities at Service Stations

The declining oil products demand in the domestic market has resulted in intensified competition for service stations. As such, improving the human capabilities of service stations, which serve as direct points of contact with customers, is growing more important in achieving ongoing growth for both Showa Shell and the contract dealers that operate these stations. The Company has introduced the Sales Promotion Advertisement & Training (SPAT) Global program as well as a variety of certification programs, and is utilizing these training and education tools to heighten human capabilities. By leveraging both these capabilities in conjunction with our retail measures, we aim to make our service stations the first choice of consumers.



### Training Initiatives Conducted Together with Contract Dealers

#### Sales Promotion Advertisement & Training Global Program

To improve the human capabilities and thereby competitiveness of service stations, we are utilizing the SPAT Global program, a comprehensive package of programs for sales promotion campaigns, advertising activities, and training and education initiatives. For example, SPAT includes a cleanliness improvement program that entails determining whether or not service stations are providing an attractive and sanitary environment from the perspective of customers as well as professionals. As such, this program helps make service stations more appealing to customers by raising staff awareness with regard to cleanliness. SPAT also contains a

wide variety of other support programs, which will be employed to guarantee that Showa Shell service stations stand unrivaled.

Another program provided as part of SPAT is a training tour for service station employees that has produced proven results. These tours enable such talented individuals to learn from one another and further polish their skills in order to help make their service stations even more competitive. At the same time, the tours serve as opportunities to share best practices among service stations and boost motivation, and thereby heighten the quality of service provided at Showa Shell service stations.

#### Certification Programs

##### Showa Shell Royal Manager Certification Program

As one of Showa Shell's principal certification programs, the Showa Shell Royal Manager (SRM) certification program aims to develop storefronts that earn the trust of customers, and to cultivate leaders who will be able to manage Showa Shell's service station network. After more than 30 years since its launch in 1979, the first class of this program has earned a strong reputation as one of the toughest programs offered in the industry. Every year, SRM-certified managers come together at the National SRM Meeting, which is designed to help participants further develop their skills through the sharing of information and opinions.

##### Showa Shell Oil Meister Certification Program

Nationally certified auto mechanics can become certified Oil Meisters once they show they have acquired in-depth knowledge of automotive oils by completing this internal training and testing program.

##### Showa Shell Car Life Advisor Certification Program

This program offers additional certification to those who have already been certified as Oil Meisters and who also possess

automotive knowledge and repair skills, as well as excellent customer communication skills.

##### Lubricant Expert Program

This program was launched in 1970 to cultivate staff who are able to respond to customer needs for lubricating oils and grease.

#### Number of Certified Individuals

(People)

	CURRENTLY EMPLOYED AS OF DEC. 31, 2015	INDIVIDUALS CERTIFIED IN 2015
<b>SRM</b>		
1st class	261	10
2nd class	2014	81
3rd class	7661	364
<b>Oil Meisters</b>	1843	83
<b>Car Life Advisors</b>	532	62
<b>Lubricant Experts</b>		
1st class	146	4
2nd class	540	40

### Disaster Response Measures at Service Stations

Showa Shell's service stations play an important role in responding to large-scale natural disasters by supplying fuel to emergency response vehicles and functioning as lifelines for supporting the lives of people living in the affected areas. The Great East Japan Earthquake caused society to re-acknowledge the importance of oil products supply, particularly in devastated regions. To ensure that supply is not interrupted in the event of a natural disaster, Showa Shell has developed an earthquake response manual, which covers topics including first-response measures to be instituted at the outbreak of an earthquake as well as autonomous equipment inspection procedures. This manual has been distributed to all service stations to guarantee disaster readiness. In addition, Showa Shell is constructing disaster-proof service stations. These facilities have their own backup power generation equipment and water tanks so that they can continue to supply oil products and water even in the event of a natural disaster. Showa Shell has a total of 31 disaster-proof stations throughout Japan. The Company has also positioned 196 core service stations across the nation. These stations are equipped with power generation equipment, water storage facilities, and telecommunication systems. Applicable under the "core service station" government assistance scheme, these stations may be called upon to serve the nation during a major natural disaster by providing priority fueling to emergency response vehicles and otherwise help respond to the crisis.

### Conducting Responsible Manufacturing and Ensuring the Quality of Oil Products

Targeting higher levels of customer satisfaction, Showa Shell is constructing quality management systems that allow it to conduct uniform quality management across the entire supply chain, from the moment crude oil is received to the point when it is finally turned over to the customer in product form. Information on the chemical substances contained in our oil products is managed in compliance with both domestic and international regulations, and safety data sheets are updated as appropriate. Through these efforts, we ensure that customers always have access to accurate information.

Our Manufacturing Division has acquired certification under the ISO 9001 international quality management standard, and we are improving our quality management systems accordingly. In addition, we employ the unique and advanced quality management methods of the Shell Group. In this manner, we are working to supply products with levels of quality that satisfy customers to an even greater extent.

As a Groupwide measure, the Product Safety Sub-Committee meets quarterly to discuss initiatives for improving product safety and ensuring product quality. This committee utilizes examples of quality management initiatives from within the Group as well as related insight from the Shell Group to strengthen quality management systems.

### Conducting Responsible Manufacturing and Ensuring the Quality of CIS Thin-Film Solar Modules

As part of its production and quality management efforts, subsidiary Solar Frontier K.K. has adopted an automated management system developed in accordance with the procedures stipulated by ISO 9001. This system allows solar modules to be tracked throughout the entire production process, before reaching the customer, by means of a serial number displayed on the module in the form of a 2D bar code.

Furthermore, we have conducted various tests on our solar modules to secure a level of durability that allows them to continue to generate power for a long period. These include a hail impact test, which fires hail at the solar modules to confirm they can withstand the impact; an exposure test, which verifies the safety of the solar module over a long period by applying complex stress to the module under conditions of actual use; and an environment test, which confirms how product performance is maintained over the long term under conditions more severe than those during actual use. In particular, the superior durability of our solar modules against hail was recognized through a resistance test by the VDE Testing and Certification Institute—an independent testing institute for electronic equipment—that was more severe than general resistance tests. In this test, multiple 45mm-wide ice balls were fired at our solar panels at a speed of 110 km per hour. The successful results of this test confirmed that our solar modules meet the quality requirements of international standards.

For quality assurance, we provide a 20-year warranty on the output of our solar modules installed in homes in Japan. In the unlikely event that the power generation output should fall below a predetermined level during this period, we install additional modules, repair them, or replace them free of charge. In addition, we have received the "JETPvm Certification (Trust Assurance) (JIS Q 8901)" from Japan Electrical Safety & Environment Technology Laboratories (JET), which verifies the long-term reliability of solar modules as well as the status of quality assurance systems. Receiving this certification confirms that we can guarantee not only the quality of our products but also of our service structure. We also provide a 10-year warranty on peripheral equipment, such as power conditioners and connection boxes.



## Together with Our Business Partners

Showa Shell aims to build strong relationships with its contract dealers, retailers, affiliate companies, and other business partners. To this end, we have established regulations and guidelines for socially responsible procurement. In addition, we share insight on the business environment and our business vision with business partners and support these partners in educating their employees. In these ways, we are working to practice CSR with the cooperation of our business partners throughout the supply chain.

### CSR- and HSSE-Minded Procurement

Working together with its business partners, Showa Shell is committed to contributing to the realization of sustainable growth for itself and the whole of society. To this end, we conduct fair procurement practices and strive to build stronger trust and deeper relationships with business partners while seeking mutual improvements in cost competitiveness. By growing together with our business partners, we hope to form lasting partnerships.

The Company conducts all of its business activities in accordance with its Code of Conduct. Accordingly, this code guides procurement activities. Furthermore, we practice strict compliance to relevant laws and regulations as well as internal rules when conducting procurement, and due consideration is paid to CSR and HSSE concerns. We also expect business partners to consider CSR and health, safety, security and environment (HSSE) issues, and before commencing dealings with new business partners we ask them to agree to adhere to relevant laws and regulations as well as the Code of Conduct, the General Rules for Procurement, and the Procurement Guidelines.

● <http://www.showa-shell.co.jp/profile/purchase/>  
(Japanese only)



### Partnership with Contract Dealers

Providing a stable supply of petroleum products requires cooperation with numerous business partners. Showa Shell's contract dealers are particularly important partners, as they spearhead our brand and maintain close ties with local communities. They also play an important role in providing products and services through direct communication with customers.

In each business field, we have a "Showa Shell Dealers' Association" consisting of contract dealers. Through these associations, we raise awareness about and insight into the business environment and share our sales strategies. We also hold training sessions and sales skills competitions to facilitate information sharing and reciprocal development between Showa Shell and its contract dealers, as well as between contract dealers themselves.

We are actively enhancing our training systems for the contract dealer employees that have an important role in supporting our brand in their position on the frontlines of retail operations. These employees include staff at service stations, who contribute to a safe and convenient motoring environment for our customers, and staff involved in the sale of lubricants and asphalt.

Showa Shell is working in partnership with contract dealers to provide a stable supply of value-added products and services to help us to continue to grow together.



## Together with Our Employees

The people that implement management strategies are an invaluable resource in Showa Shell's ongoing quest to respond to society's energy needs as a pioneer in its field.

Showa Shell's Talent Vision defines the credo and behavioral guidelines to which we expect employees to adhere. Based on this vision, we are fostering human resources and developing a comfortable workplace environment with the aim of maximizing the potential of all employees, who possess a diverse range of skills and capabilities.

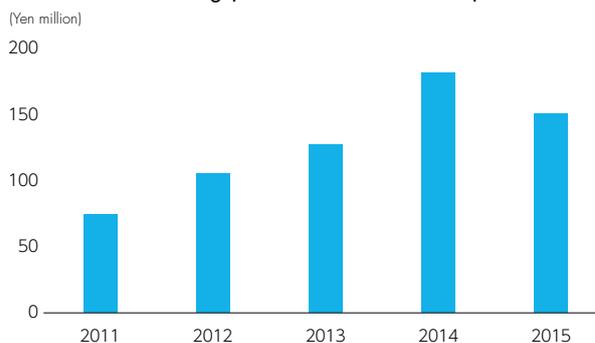
### Talent Vision and Education Systems

Showa Shell established the Talent Vision in 2011, which defines the type of human resources needed by Showa Shell, and we are constantly working to strengthen human resources in accordance with this vision. Specifically, we have restructured our employee education systems and revised employee evaluation frameworks.

The three pillars of the Talent Vision are Initiative, Outbound, and Team Spirit. These are the characteristics we intend for our employees to share, regardless of age, qualifications, or position.

Aiming to cultivate the type of employees described by the Talent Vision, we have developed education systems based on the following three development areas: development of competency and way of thinking, development of professional talent, and improvement of adaptability to a global business environment. The education systems contain a variety of programs designed to help employees more actively work to acquire the skills that will be necessary for their individual career paths. Programs include seminars for specific business fields, such as crude oil procurement, refining, logistics, legal affairs, and IT, which are held on a Groupwide basis, spreading across

Investment in Training (Non-Consolidated Basis)



division boundaries to allow any employee to develop specialized skills. We also offer training arranged based on the number of years worked and current position, such as junior employees in their first three years, mid-level employees, and managers, as well as voluntary training. Furthermore, in 2014, we launched a new training program designed to improve the leadership capabilities of managers. This program aims to instill an understanding with regard to Showa Shell's leadership model in all managers, and help them to develop and display consistent leadership behavior.

Talent Vision



	Development of Competency and Way of Thinking		Development of Professional Talent			Improvement of Adaptability to Global Business Environment		Other
	HR Division		Business Segments			HR Division & Business Segments	Test	Support for Self-Education
GMs	Training Programs of General Managers							
Managers	Training Programs of New Managers, MBO, and Managers	Elective Domestic Off-Site Training	Advanced Courses by Business Segment	Specialized Skill Development Courses by Business Segment	Support for Specialized Skill Development Courses Outside of the Company	Shell Overseas Training	Elective Overseas Off-Site Training	TOEIC Test (Offered Companywide)
Mid-Level Employees	Basic Management Training							Correspondence Education / English Training by Schooling
	Leadership Training							
	Basic Leadership Training							
Junior Employees (1-3 Years)	Training Programs of New Graduates and Based on Number of Years at the Company		Basic Courses by HR Division				Studying Abroad Program	
Pre-Employment	Training before Joining							

## Creation of a Worker-Friendly Environment

### Respect for Human Rights

Showa Shell's Code of Conduct requires us to conduct business as a responsible member of society, observe laws, and respect fundamental human rights. We respect the human rights of our employees and of all our other stakeholders. We adhere to international labor standards, such as those forbidding child labor, and promote initiatives to create opportunities for fair and impartial treatment eliminating discrimination, on many fronts: from hiring, transfers, treatment, and educational opportunities to retirement.

As a hiring initiative and in accordance with the Policy for Diversity and Inclusiveness, we hire employees based on their compatibility with the Talent Vision, regardless of their nationality, gender, or disability status.

● [http://www.showa-shell.co.jp/profile/mp/D\\_and\\_I.html](http://www.showa-shell.co.jp/profile/mp/D_and_I.html)

### Discussions with Labor Unions

We engage in discussions with our labor unions on a regular basis. These discussions are held on a variety of themes, including management issues, workplace culture, workflow improvement, and work-life balance. Through intensive discussions, we exchange opinions regarding issues faced by management and employees, consider possible solutions, and otherwise seek out ways of creating a workplace environment in which all employees can utilize their skills to the fullest extent. The results of such discussions are emailed to all employees, and these results can also be viewed on our intranet.

### Reemployment of People Retiring at Retirement Age

We have in place a reemployment system for reemploying ambitious and capable people aged 60 and over, putting the knowledge and expertise they have accumulated over the course of their careers to good use. In 2015, 72.1% of employees that retired after reaching the regular retirement age of 60 expressed the desire for reemployment.

### Employment Statistics (Non-Consolidated Basis)

As of December 31, 2015	
Number of employees	808
Percentage of employees that are female	22.8%
Percentage of employees with disabilities	2.0%
Number of managers (including executives)	206
Percentage of managers that are female	4.4%
Average age	44.0 years old
Average length of employment	19.9 years

### Hiring Statistics (Non-Consolidated Basis)

As of December 31, 2015	
Number of new graduates hired in 2015	20
Women among new graduates hired over past 5 years	29.0%
Non-Japanese among new graduates hired over past 5 years	6.0%
New graduate retention rate (percentage of new graduates hired in April 2011 that were still employed in April 2015)	100%
Number of mid-career personnel hired in 2015	4

### Employment of Differently Abled People

We are actively developing a workplace environment in which differently abled people can work to their fullest. As of December 31, 2015, differently abled employees represented 2.0% of employees (non-consolidated), a level that satisfies the minimal legally mandated requirement. Going forward, we will continue to provide employment opportunities for a diverse range of individuals.

### Systems to Promote Work-Life Balance

The Company is committed to establishing a workplace environment that enables all employees to fully utilize their skills, and we supply a range of support programs that exceeds legally required levels. In 2008, we introduced a telecommuting system. In 2014, we expanded the scope of our flextime system to make it available to employees working shortened hours for childcare or nursing care purposes in addition to standard employees. The goal of this change was to provide an environment that facilitates more-flexible work styles. To promote the usage of under-used programs going forward, we will continue to improve the programs themselves while also cultivating a corporate culture that is conducive to their use.

[http://www.showa-shell.co.jp/profile/mp/work\\_life\\_balance.html](http://www.showa-shell.co.jp/profile/mp/work_life_balance.html)

### Work-Life Balance Support Systems and Usage Numbers

Figures in parentheses indicate number of men

	2013	2014	2015
Childcare or nursing care leave	23 (3)	20 (2)	40 (2)
Shortened working hours for childcare or nursing care	9 (1)	13 (1)	17 (1)
Leave to care for a sick child	35 (19)	41 (22)	34 (15)
Family care leave of absence	23 (11)	20 (13)	13 (8)
Telecommuting	4 (0)	4 (0)	5 (0)
Self-development leave of absence	3 (0)	2 (0)	4 (1)

### Key Systems that Promote Work-Life Balance

All Employees	
Annual paid vacation	Employees are awarded paid vacation every year, based on their length of service (max. 21 days/year). Paid vacation can be taken in half-day increments.
Annual carried over paid vacation	Employees can carry over the unused portion of their annual paid vacation to the following year (max. 31 days/year).
Flextime	Employees are allowed to flexibly determine the number of hours they will work each day.
Self-development leave of absence	Employees can take a maximum of two years off to develop their professional skills.
Community service leave of absence	Employees can take a maximum of two years off to engage in volunteer activities.
Community service leave	Employees can take special paid leave to engage in volunteer activities (max. 3 days/year).
Lay judge and prosecution councilor leave	Employees are given as many days of paid leave as necessary to perform lay judge or prosecution councilor duties.
Employees Giving Birth or Caring for Children	
Maternity leave	Employees can take special leave to give birth starting six weeks prior to their due date (14 weeks in the case of multiple births) and continuing until eight weeks after delivery.
Paternity leave	Employees can take five days of special paid leave when their spouse gives birth.
Childcare leave	Employees can take childcare leave until their child's second birthday.
Shortened-work hours	Employees can shorten their daily work hours by a maximum of two hours per day (until their child starts 4th grade).
Telecommuting	Employees can work from home one day per week (until their child starts 4th grade).
Leave to care for a sick child	Employees can take 10 days per year of special paid leave to care for a sick child (until the child starts elementary school). The leave can be taken in full-day, half-day, or one-hour increments.
Employees Caring for Family Members	
Family care leave of absence	Employees can take leave for a maximum of one year per family member requiring care (can be taken in separate blocks of time).
Family care leave	Employees can take 10 days per year of special paid leave to care for a family member. The leave can be taken in full-day, half-day, or one-hour increments.
Shortened-work hours	Employees can shorten their daily work hours by a maximum of two hours per day (for a maximum of three years).
Telecommuting	Employees can work from home one day per week (while providing care for a family member).

## Showa Shell Women's Network

Showa Shell has been striving to create a comfortable workplace environment in which all employees can fully exercise their skills. Prior to the 1991 enactment of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members, the Company had introduced a childcare leave system and various other systems for supporting work-life balance, and in 2002, the Company formulated the Policy for Diversity, which was later replaced with the Policy for Diversity and Inclusiveness. In addition, a

survey of all female employees was conducted in October 2014 to be used in establishing measures for supporting female employees in their medium- to long-term career development, and 95.3% of applicable employees responded. After analyzing and examining the results of this survey, we developed four priority action plans that set forth initiatives for further empowering female employees. Later, in October 2015, we formed the Showa Shell Women's Network as an internal organization to advance the priority action plans and since then, we have implemented various initiatives.

### Four Priority Action Plans

- Female employee development programs
- Networking initiatives
- Flexible workstyle promotion
- Empowering corporate culture cultivation

### Overview of Showa Shell Women's Network Activities

Phase 1 (Oct.–Dec. 2015): Activities targeting female employees (subcommittees, lectures, etc.)

First Showa Shell Women's Network Meeting (Feb. 2016)

Phase 2 (Feb. 2016–Present): Expansion of Phase 1 activities and advancement of Companywide activities (male and female employees)

During Phase 1 of the Showa Shell Women's Network activities, for female employees, we held subcommittee meetings for discussing themes of importance to female employees, such as balancing work and child-rearing and improving mindset, together with female managers. Lectures by female officers were also conducted. Anyone could voluntarily attend all of these assemblies. Roughly 50% of female employees took part in these activities. A survey conducted after these assemblies indicated that almost all participants felt that the gatherings were incredibly meaningful, demonstrating that these activities served as an opportunity for participants to cultivate positive mindset and find something new.

In February 2016, we held the First Showa Shell Women's

Network Meeting. A panel consisting of female managers as well as eight members of senior management, including Group CEO Tsuyoshi Kameoka, participated in this meeting, reviewing the activities of Phase 1 while drafting activity plans for Phase 2. Through an active exchange of opinion, it was decided that Phase 2 should include Companywide activities for both female and male employees and that senior management should continue to proactively support these activities. Currently, Phase 2 initiatives are under way.



## Employee Opinion Surveys

Employee opinion surveys are instituted each year. These surveys include questions related to issues with management or particular divisions and improving workplace environments. In 2015, the survey response rate\*1 was 95.6%. The results indicated improvement with regard to the three prioritized items described to the right, whose improvement had been positioned as an issue to be tackled by the entire Company during 2015. We have been advancing projects for transforming our corporate culture and reforming workflow processes since 2013, and we feel that the aforementioned improvements can be attributed to these projects. Moreover, the results of surveys are relayed back to each division and, under the guidance of division heads, are utilized in uncovering and improving issues at individual worksites.

### Employee Opinion Survey: Improvement in Prioritized Items

#### (1) Collaboration that spreads across departmental boundaries

2014	2015	
55%	63%	+8 percentage points*2

#### (2) Improvement of workflow processes

2014	2015	
57%	70%	+13 percentage points*2

#### (3) Learning from the successes of other employees and companies

2014	2015	
48%	71%	+23 percentage points*2

\*1 Employee opinion survey response rates: 95.3% in 2014; 95.6% in 2015

\*2 Increase in ratio of employees choosing "conditions favorable" from three response choices ("conditions favorable," "no strong feeling," and "conditions unfavorable")

## Together with Communities and Society

Showa Shell conducts environmental preservation and international community support activities with an emphasis on supporting the education of the children and young people that will be directly responsible for shaping the future of society. Through these efforts, we are working as an energy solution provider to provide a different type of “energy” to local communities and society as a whole. In this section, we would like to focus on one of these various activities: our environmental photo contest.



### Shell Art Award 2015

In 1956, there were almost no independent art awards aside from those associated with group exhibitions. At that time, a non-Japanese executive expressed their desire to provide young artists with the opportunity to display their works. This led to the development of the Shell Art Award, which is offered through a fully open application system. The spirit of this award lives on today, as we continue to accept applications from aspiring artists aged up to 40.

Shell Art Award 2015 was the 44th time this event has been held since its inception, and a total of 807 works were submitted by 552 artists. Of these, 53 works were selected for awards, and these works were displayed at the Shell Art Award 2015 exhibition at the National Art Center, Tokyo, in Roppongi. A total of 5,119 people visited the exhibition over its 12-day run during December 2015.

To offer ongoing support to aspiring artists, in conjunction with the standard exhibition, we also displayed the Showa Shell Art Award Artist Selection, which featured several works from four previous award winners. In addition, a number of new initiatives are being implemented with the hopes of increasing connections between artists and potential patrons, such as providing an area at exhibitions where visitors can view the art portfolios of award winners. Furthermore, in 2015, we presented a special Audience Award, chosen based on votes from people attending the exhibition.

We hope to continue holding this annual event to contribute to the development of cultural arts in Japan.

● <http://www.showa-shell.co.jp/enjoy/art/index.html>



2015 grand prize-winning submission: “Monster”



2015 grand prize-winning submission: “Yuki No Kenkyu,” meaning “a study of snow”

### Energy Education Program for Children

As one effort to support the education of the next generation of children, we hold Energy Education Programs for elementary school students. Through this educational program we help deepen children’s understanding of global climate change issues, the importance of energy conservation, and renewable energy.



These classes are held at elementary schools near our head office in Daiba, Tokyo, and at a training facility neighboring the Niigata

Yukigunigata Megasolar Power Plant in Niigata Prefecture. In 2015, a total of 410 students participated in this program. In addition, we now hold Energy Education Programs at other Showa Shell Group facilities, such as those of Solar Frontier and Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd.

Going forward, the Showa Shell Group will continue to conduct unique energy-related classes and otherwise utilize its resources to provide children with opportunities to think about the environment and the energy that surrounds their daily lives.

● <http://www.showa-shell.co.jp/enjoy/energyschool/index.html>

## 11th Environmental Photo Contest, "Things to Preserve and Correct around Our Town"

In Showa Shell's annual environmental photo contest, participants are asked to take photos of the close-to-home scenery they want to preserve as well as scenes that represent issues they want to correct as soon as possible. These images are then submitted together with comments from the entrant. Thanks to the support of the Ministry of the Environment and several companies and organizations that also agree with the ideals embodied in the contest, we successfully held our 11th environmental photo contest in 2015. This contest attracted a total of 5,313 participants (151 in the elementary school category, 4,431 in the junior high school category, and 731 in the high school and technical college category) for various age groups.

The contest has been incorporated into the environmental education curriculum of several schools, and we have established a school category in which we present awards to entire schools. Approximately 220 schools entered this category in 2015.

The winning entries were displayed in the Shell Museum on the first floor of our head office in Daiba (Tokyo) over a period of approximately two months. In commemoration of the 10th holding of this contest, this year's winners were displayed alongside the first prize-winning entries from the junior category of the previous nine contests,

giving visitors a chance to view works submitted throughout the contest's history.

Showa Shell aims to develop this contest into an opportunity for ordinary citizens to look at the scenery around them, become aware of the environmental issues present therein, and think of how to resolve these issues. We will therefore continue this initiative going forward.

- <http://www.showa-shell.co.jp/enjoy/photo/index.html> (Japanese only)



### First Prize-Winning Submission in the Elementary School Category of the 11th Environmental Photo Contest

Title: "An Empty House"



#### Comment

**Nanase Masuda**

(First-year elementary school student), Fukui Prefecture

There is a swallow's nest on my house. When the swallows became adults, they flew away. When May comes, the swallows come back to the nest.

Nobody lives in this house. It is old and run-down, but it still remains. I felt that someone would live in this house if we fixed it up and made it clean.

- Other winning submissions can be found on the Company's website (Japanese only).  
<http://www.showa-shell.co.jp/enjoy/photo/>

## 11th Energy Sustainability Forum Public Symposium

Together with the Integrated Research System for Sustainability Science (IR3S) operated by the University of Tokyo, Showa Shell held its 11th Energy Sustainability Forum public symposium based on the theme of creating an ecologically sound society by combining efforts related to energy, resources, and the environment.

At the symposium, this theme was discussed from a variety of perspectives. The deputy director-general of a government agency as well as university professors gave presentations on topics that included examples of specific activities in communities, as well as Showa Shell's initiatives, that aim to contribute to the creation of an ecologically sound society. Another theme discussed was the progression of regional revitalization that thoroughly leverages natural

capital. This theme was examined through a panel discussion by presenters in which a variety of opinions and suggestions were raised as to how various energy technologies can be incorporated into activities tailored to the characteristics of specific regions.

- <http://en.ir3s.u-tokyo.ac.jp/>



## Teruha no Mori Ongaeshi Forest Preservation Project

Aya no Shoyo Jurin Forest is located in Miyazaki Prefecture, northwest of Kunitomi Plant, the flagship solar module manufacturing plant of Solar Frontier K.K. In 2012, this lush evergreen forest was registered as the fifth UNESCO eco-park in Japan. Kunitomi Plant benefits from the rich natural bounty of this forest by using the groundwater it produces.

The *Teruha no Mori Ongaeshi* forest preservation project entails thinning trees that have been introduced into this natural forest, such as Japanese cedar (*Cryptomeria japonica*) and Japanese cypress (*Chamaecyparis obtusa*). This thinning enables more sunlight to reach the indigenous flora, and is thereby anticipated to facilitate the natural development of the natural evergreen forest and allow it to grow even more majestic. Solar Frontier employees began participating in this project during 2013, and a total of 28 employees took part in these thinning activities during 2015. Going forward, these activities will be continued as part of the Company's contributions to local communities and society.



Environmental preservation activities

through the nonprofit organization (NPO) TABLE FOR TWO International. This program places social contribution close-at-home for employees, making it easier for them to lend aid, and also helps them improve their own health through the provision of healthy food.

This program was started in December 2013 in the cafeteria of Showa Shell's Daiba (Tokyo) head office building, and as of June 30, 2016, this program had collected enough donations to purchase 9,322 school lunches for children in need. We continue to conduct the TABLE FOR TWO program to provide Showa Shell and its employees with the opportunity to take part in social contribution together.

Note: Photograph provided by TABLE FOR TWO International



Support education for next generation

International community support activities

## Participation in TABLE FOR TWO Cafeteria Charity Program

Showa Shell has introduced the TABLE FOR TWO program into its employee cafeterias. When employees order a healthy dish from the TABLE FOR TWO menu, a portion of their meal price will be donated to fund school lunch programs for children in developing countries

## Provision of Office Space for Refugees International Japan

Showa Shell and Shell Chemicals Japan have been providing support in the form of free office space to Refugees International Japan (RIJ), an NPO dedicated to raising funds to assist refugees, since its inception in 1979. RIJ raises money through the sales of greeting cards and crafts and through other fundraising campaigns, and provides emergency food and medical support and education support for refugees to find a path toward self-sufficiency.



International community support activities

## Together with Our Shareholders and Investors

Showa Shell provides timely and accurate disclosure of information for shareholders and other investors. In addition, we conduct proactive investor relations (IR) activities to practice interactive communication.

### Formulation of the Policy on Constructive Dialogue with Shareholders

We aim to fulfill our accountability to our shareholders and sustainably increase our corporate value by engaging in active and constructive dialogue with our shareholders and investors. In 2015, we formulated the Policy on Constructive Dialogue with Shareholders under the Basic Policy on Corporate Governance. We engage in proactive IR activities based on this policy and work to reflect the opinions and expectations of our shareholders and other investors in our management and IR activities.

● [http://www.showa-shell.co.jp/english/profile/mp/corporate\\_governance.html](http://www.showa-shell.co.jp/english/profile/mp/corporate_governance.html)

### Information Disclosure and Communication

At Showa Shell, we actively promote information disclosure and interactive communication with our shareholders and other investors through our IR activities.

We hold quarterly presentation meetings, including teleconferences, on our business performance for domestic securities analysts and institutional investors. In addition, every year we hold the Top Seminar at which top management explains our management strategies. Also, through individual meetings, we offer explanations about the business environment and our performance.

We disclose information to our individual shareholders and investors primarily through our Company website. In 2014, we began to release audio recordings of the quarterly presentation

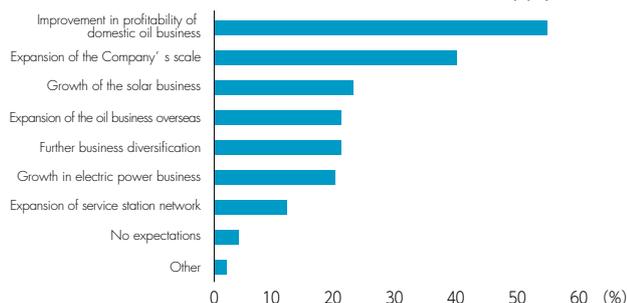
meetings on business performance on our website together with presentation materials in order to provide more detailed explanations regarding our business performance. Furthermore, we publish a semi-annual business report booklet entitled *To Our Shareholders*, which provides updates on the progress of our business performance and strategies as well as explanations regarding important topics in each of our businesses. We also conduct shareholder questionnaires that can be submitted either by mail or through the Company's website to understand individual shareholders' opinions toward our management and requests regarding our IR activities. We leverage the opinions and requests we receive through these questionnaires in our management and IR activities. At the same time, we provide a summary of questionnaire results in the *To Our Shareholders* booklet.



● <http://www.showa-shell.co.jp/english/ir/index.html>

## 2015 Shareholder Questionnaire Results

What are your expectations of Showa Shell's business integration with Idemitsu Kosan Co., Ltd? (Check all that apply)



Survey period: September–October 2015, Responses: 5,023

For overseas investors, we provide timely information disclosure by posting English-language materials including summaries of financial results, presentation materials, and convocation notices for the General Shareholders' Meeting on our website at the same time as the Japanese-language materials. In addition, we actively provide information and exchange opinions with overseas institutional investors through individual meetings and participation in conferences held by securities companies.

The opinions we receive from our shareholders and other investors through these communication efforts are reported to our Directors and

Audit & Supervisory Board Members so that this feedback can be leveraged in our management to improve our corporate value.

## General Shareholders' Meeting

Showa Shell positions the General Shareholders' Meeting as an opportunity to not only deepen shareholder understanding of the Company but also to encourage shareholder participation in the Company's management through the exchange of opinions and the exercise of voting rights. As such, in the meeting, our management provides explanations on the business performance of the concluded period as well as on future business strategies. For the 104th General Shareholders' Meeting held on March 29, 2016, we distributed convocation notices approximately three weeks in advance to give our shareholders a sufficient amount of time to consider agenda items, thereby allowing them to exercise their voting rights in an informed manner. In addition, we disclosed the convocation notice in both Japanese and English on the Company website prior to sending versions in writing.

## Outside Evaluation of IR Activities

Showa Shell received First Prize in the Petroleum/Mining category of the 2015 Awards for Excellence in Corporate Disclosure sponsored by The Securities Analysts Association of Japan that evaluates and publicizes a company's overall effort in IR activities. In particular, the Company received high evaluations for its management's attitude toward sharing information and engaging in dialogue with shareholders and other investors, as well as for its efforts to continuously expand and improve its information disclosure and IR activities. Going forward, we will make efforts to further improve our IR activities so that we can continue to satisfy our shareholders and other investors.



## Publication of Corporate Reports

The Showa Shell Group began publishing integrated corporate reports in 2012 with the aim of providing stakeholders, including its shareholders and other investors, with a more comprehensive view of its management strategies and the initiatives based thereon. In addition to information on business activities and financial performance, these reports provide an outline of the Company's corporate governance and the management resources that support the Company's sustainable growth, namely its human resources, technologies, and health, safety, security and environment (HSSE) promotion system.

In addition, detailed non-financial information and information on initiatives targeting all stakeholders are provided in the Company's CSR books.



● <http://www.showa-shell.co.jp/english/ir/corporate/index.html>

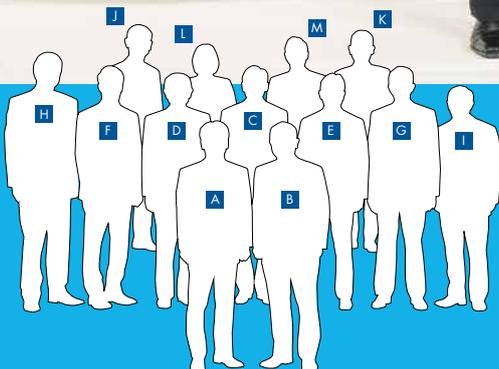
## Corporate Governance

### Our Basic Stance on Corporate Governance

Aspiring to continuously grow and to enhance corporate value, the Company promotes separation of the business supervision and the business execution functions, and endeavors to disclose information in a right and timely manner for even greater managerial transparency and efficiency.

The Company strives to further enhance its reliability through fair and equitable treatment of all stakeholders and proactively take objective, outside perspectives into its management. The Company will also create an ideal corporate governance system in line with its corporate goals and characteristics as well as changes in the social and legal environments. Furthermore, it will continuously verify and improve the effectiveness of the functions of the system.

We have posted our "Basic Policy on Corporate Governance" on the Company website.  
[http://www.showa-shell.co.jp/english/profile/mp/corporate\\_governance.html](http://www.showa-shell.co.jp/english/profile/mp/corporate_governance.html)



## Board of Directors and Audit & Supervisory Board Members (As of May 31, 2016)

### Representative Directors

Name	Position / background
<b>A Tsuyoshi Kameoka</b>	Representative Director, President, Group CEO After joining Showa Shell, Mr. Kameoka served in several divisions including domestic fuel sales, human resources, and oil product trading. He also worked in oil product trading in the United Kingdom. He has played a number of senior roles over the years, including Oil Products Division Manager, Executive Officer and Branch Manager, and Corporate Executive Officer overseeing all sales divisions. He was subsequently appointed to Oil Business Chief Operating Officer (COO), before assigned to his current position in March 2015.
<b>B Tomonori Okada</b> (newly appointed)	Representative Director, Vice President Since he joined the Company, Mr. Okada had been engaged mainly in the production, supply, and logistics segments. He was involved in managing research and development, research laboratories, and the corporate planning division as Corporate Executive Officer and Senior Corporate Executive Officer, as well as Director and President at Seibu Oil Co., Ltd. He took his current position in March 2016.

### Outside Directors

Name	Position / background	Reason for appointment
<b>C Minoru Takeda</b> Outside Director since March 2013 Attended 12/12 Board of Directors meetings in fiscal 2015	Chairman of the Board of Directors Resigned from positions as President and Representative Director of Shell Japan K.K. and Representative Director of Shell Chemicals Japan Ltd. in May 2015	Mr. Takeda was selected for his extensive operational experience and knowledge in global business management that he had developed when working at oil companies in Japan and overseas, as well as his experience as the Chairman of the Board of Directors to appropriately manage the Board of Directors, reinforce the management supervisory function and corporate governance, and offer business strategic advice. For these reasons, the Company believes that he will execute the duties of Outside Director appropriately.
<b>D Yukio Masuda</b> Outside Director since March 2009 Attended 12/12 Board of Directors meetings in fiscal 2015	Independent Director Advisor, Mitsubishi Corporation	Mr. Masuda has abundant experience gained through his long-time career in the energy business sector of Mitsubishi Corporation and extensive knowledge in the energy business in Japan and overseas. Based on this background, he has demonstrated appropriate supervision of the management of the Company by proactively expressing his opinions to enhance the transparency and fairness in managing the Company while serving as a member of the Nomination and Compensation Advisory Committee. In light of these efforts, the Company believes that he will execute the duties of Outside Director appropriately.
<b>E Takashi Nakamura</b> Outside Director since March 2014 Attended 12/12 Board of Directors meetings in fiscal 2015	Independent Director Former Director and Deputy President, Ricoh Company, Ltd. (resigned in June 2012)	Mr. Nakamura has experience in managing the human resource division at Ricoh and in managing the company's domestic and European subsidiaries. Based on this background, his extensive knowledge of global management of Japanese companies, his appropriate management supervision, and his track record of contributing proactively to enhancing management transparency and fairness as Chairman of the Company's Nomination and Compensation Advisory Committee, the Company believes that he will execute the duties of Outside Director appropriately.
<b>F Ahmed M. Alkhunaini</b> Outside Director since March 2014 Attended 12/12 Board of Directors meetings in fiscal 2015	Representative Director, Aramco Asia Japan K.K.	Mr. Alkhunaini has extensive knowledge of oil markets around the world. He has worked in various assignments in the oil business in the United States, Saudi Arabia, and Japan, and these assignments have included both strategic and operational leadership roles. Given this management experience and his track record of providing advice to management of the Company and implementing appropriate supervision for the execution of business, the Company believes that he will execute the duties of Outside Director appropriately.
<b>G Nabil A. Al-Nuaim</b> Outside Director since March 2014 Attended 10/12 Board of Directors meetings in fiscal 2015	President and CEO, Aramco Far East (Beijing) Business Services Co., Ltd. (China)	Mr. Al-Nuaim has knowledge in the downstream oil and power generation business sectors, including strategy development, policy-oriented business analysis, and operations. Given this background and his track record of providing advice to management of the Company and implementing appropriate supervision for the execution of business, the Company believes that he will execute the duties of Outside Director appropriately.
<b>H Christopher K. Gunner</b> Non-Executive Director since March 2015, Outside Director since March 2016 Attended 10/10 Board of Directors meetings in fiscal 2015	President and Representative Director, Shell Japan K.K.; President and Representative Director, Shell Chemicals Japan Ltd.	Mr. Gunner has broad knowledge on both the upstream and downstream sectors of the oil and gas business, including extensive management experience in Japan, South Korea, Malaysia, Australia, and the United Kingdom. Given this background and his track record of providing advice to management of the Company and implementing appropriate supervision for the execution of business as Non-Executive Director, the Company believes that he will execute the duties of Outside Director appropriately.
<b>I Philip Choi</b> Outside Director since March 2016 (newly appointed)	President, Shell International Eastern Trading Company (Singapore); Director, Shell Eastern Trading (Pte) Ltd. (Singapore); Director, Shell Chemicals Japan Ltd.	Mr. Choi has broad experience and sophisticated management knowledge covering both the upstream and downstream sectors of the oil and gas businesses, as well as knowledge of the oil business in Japan. Given this background, the Company believes that he will be able to provide advice to management of the Company and will exercise appropriate supervision for the execution of business.

### Audit & Supervisory Board Members

Name	Position / background
<b>J Kiyotaka Yamada</b>	Audit & Supervisory Board Member After joining the Company, Mr. Yamada worked mainly in the Distribution, Secretariat, Finance & Control Department, and HSSE divisions. After his experience as Branch Manager and then as Manager of the Finance & Control Department, he played the roles of Executive Director and Corporate Executive Officer, before his current position.
<b>K Kenji Takahashi</b> (newly appointed)	Audit & Supervisory Board Member Since joining the Company, Mr. Takahashi has worked mainly in human resources, general affairs, and procurement. He was Chief of Industrial Relations, the General Affairs Division, and the Internal Audit Division before his current position.

### External Audit & Supervisory Board Members

Name	Position / background	Reason for appointment
<b>L Midori Miyazaki</b> External Audit & Supervisory Board Member since March 2006 Attended 11/12 Board of Directors meetings and 11/13 Audit & Supervisory Board meetings in fiscal 2015	Independent Audit & Supervisory Board Member Professor and Dean, Faculty of Global Studies, Chiba University of Commerce	Ms. Miyazaki was selected for her broad insights obtained from her careers at Chiba University of Commerce as a professor and in policy making as a member of a tax system research commission, with the expectation that her perspective from outside the oil industry would help strengthen the auditing function. Given this background, coupled with her track record on the Nomination and Compensation Advisory Committee in proactively expressing her opinion to enhance transparency and fairness in management of the Company, the Company believes that she will execute the duties of external Audit & Supervisory Board Member appropriately.
<b>M Kenji Yamagishi</b> External Audit & Supervisory Board Member since March 2008 Attended 12/12 Board of Directors meetings and 13/13 Audit & Supervisory Board meetings in fiscal 2015	Independent Audit & Supervisory Board Member Attorney	In addition to his activities as an attorney, Mr. Yamagishi has held important posts at the Bar Association and has deep understanding in a broad range of fields. He has also exercised his auditing capabilities to assist in the sound development of the Group and has a track record on the Nomination and Compensation Advisory Committee in proactively expressing his opinion to enhance transparency and fairness in management of the Company. For these reasons, the Company believes that he will execute the duties of external Audit & Supervisory Board Member appropriately.

#### Overview of Liability Limitation Agreements

Outside Directors (Minoru Takeda, Yukio Masuda, Takashi Nakamura, Ahmed M. Alkhunaini, Nabil A. Al-Nuaim, Christopher K. Gunner, and Philip Choi) and external Audit & Supervisory Board Members (Midori Miyazaki and Kenji Yamagishi) entered into a liability limitation agreement with the Company in relation to the limitation of liability specified in Clause 1, Article 423, of the Companies Act. Amounts of liability under this agreement shall be the higher amount of ¥10 million and the amount designated by the Companies Act.

### Independence Standards

The Company has formulated Independence Standards\* to bolster its management transparency and ensure objectivity. Two or more Independent Outside Directors satisfy these requirements. In addition, all external

Audit & Supervisory Board members satisfy the requirements to be independent external Audit & Supervisory Board Members.

\* [http://www.showa-shell.co.jp/profile/mp/corporate\\_governance.html](http://www.showa-shell.co.jp/profile/mp/corporate_governance.html)

Interview with Minoru Takeda, Outside Director

**Q. Could you please tell us about Showa Shell's initiatives to strengthen its governance systems?**

By welcoming directors who have a relationship with major shareholders the Shell Group and Saudi Aramco as well as multiple independent outside directors with an even stronger awareness of the interests of general shareholders to the Board of Directors, Showa Shell has worked to continuously improve governance-related issues while always maintaining a focus on balanced shareholder returns.

In 2015, from the perspective of realizing even higher quality governance, Showa Shell separated the roles of Chairman of the Board of Directors, who conducts management oversight, and CEO, who has the ultimate authority over business execution, and subsequently implemented a system where an outside director, who does not participate in business execution, serves as Chairman of the Board of Directors. After establishing this system, the Company held workshops for the Board of Directors to reaffirm the importance of directors' responsibilities pertaining to management oversight as well as enhance the Board's effectiveness. In addition, the Company enhanced transparency in processes for determining director remuneration and nomination. For example, in the Nomination and Compensation Advisory Committee, which comprises primarily independent outside directors, the Company holds objective debate regarding director remuneration and nomination as well as the development of successors.

Meanwhile, the Company changed the number of Japanese executive directors to two and assigned a full-time executive officer and COO to the Energy Solutions Business, which serves as a major pillar of the Showa Shell Group's business. In these ways, I feel the Company has secured sound swiftness in its business execution.

**Q. How do you evaluate Showa Shell's governance?**

While there are a variety of governance systems that exist, what is important for a company is not establishing numerous systems but rather creating optimal systems that suit that company and operating them effectively. In this regard, I get a strong sense that the Company has an awareness toward effectively leveraging the systems it has in place, through its own initiative, to developmentally advance internal innovations in its governance.

Amid the fierce changes that surround the global environment for the energy business, Showa Shell's Board of Directors has a well-balanced structure that ensures transparency and incorporates executive and outside perspectives as well as domestic and overseas perspectives. I believe that the independent outside director Mr. Masuda draws upon his vast personal network and experience in the global energy business to their full extent for the sake of the Company. I also believe that Mr. Nakamura, another independent director, excels when it comes to corporate governance. In addition, with his experience in the

manufacturing industry, where technological innovations happen rapidly, Mr. Nakamura is actively involving himself in improving the value of the Company's solar business in such ways as providing advice for on-site production. Furthermore, outside directors who are members of the Shell Group and Saudi Aramco engage in debate as Showa Shell directors, offering an international point of view.

From an operational perspective, the Company carries out sufficient information exchange and communication among directors to allow for more meaningful debate by the Board of Directors. In addition, the Company conforms to the requests of Japan's Corporate Governance Code and implements surveys regarding the Board of Directors' effectiveness. The results of these surveys are disclosed and deliberated by the Board of Directors in order to further improve the Board's functions. Through these activities, I believe that the Company's advanced governance systems are being operated effectively.



**Minoru Takeda**

Outside Director, Chairman of the Board of Directors  
Outside Director of Showa Shell since March 2013

**Q. What do you feel is necessary in order for the new company to generate synergies and realize sustainable growth?**

The environment surrounding the energy business is facing major changes, including environmental issues, technological innovations, and an increasingly borderless market. Regarding these changes as threat, the Board of Directors debated for many years on reorganizing the industry and concluded that Idemitsu Kosan was the best possible business partner from the perspective of business scale and synergy. As such, the Company is moving forward with discussions on integrating its business with them.

When it comes to realizing this integration, as the scope of the new company's business expands, it will become more and more important for Showa Shell to more strategically consider the business portfolio and the investment stance. After thoroughly debating the vision of both companies, as well as the strategy needed to realize that vision, it is necessary to draw a clear picture of the strategy for the new company and the returns that will come after the strategy is executed. This will allow employees of both companies to work enthusiastically, feeling satisfied, thereby promptly generating synergistic effects. In order to carry out this kind of strategic approach, it is extremely important to establish a solid governance structure at the new company and operate it in an efficient manner.

**Efforts to Build a Corporate Governance System**

1999 Number of directors reduced from 18 to 11, executive officer system introduced  
2003 Executive officer system revised, Management Executive Committee established, number of outside directors increased by 1

2005 Number of outside directors increased by 1  
2007 Retirement allowance system for directors abolished  
2009 Number of outside directors increased by 1 (4 of 8 directors became outside directors)

## Interview with Midori Miyazaki, External Audit & Supervisory Board Member

### Q. How would you evaluate the changes in Showa Shell's governance systems?

Firstly, I would like to give Showa Shell high praise for its tireless efforts to develop fair governance systems that can meet the expectations of its various stakeholders. The Company has proactively introduced outside directors to strengthen management oversight functions and transparency, leading to a Board of Directors comprising globally diverse members. Moreover, the Company further separated functions between management oversight and business execution to fully utilize the strengths of the Board of Directors. I believe that the quality of its governance systems has progressively improved.

### Q. Since your last interview two years ago, have you seen changes in the Company's management or whatever?

I feel that Showa Shell has enhanced its ability to proactively adapt itself to an ever-changing business environment, not just in terms of governance but in every other aspect of business. In particular, while external pressure for industrial reform has been mounting, the Company has prepared well and is ready to play a leading role in that regard as a result of its efforts to increase its competitiveness.

Showa Shell employees freely voice their opinions from their own perspectives and are proactive in their actions without being influenced by the opinions of others or feeling pressured in any way. These actions are quite visible—for example, in the meetings between mid-level employees of Idemitsu Kosan Co., Ltd. and the Company to deepen mutual understanding in the lead-up to the business integration, or in the establishment of the Showa Shell Women's Network aimed to promote the active role of women in the workplace. I believe these examples prove that Showa Shell values such efforts to encourage mutual communication.

### Q. Could you please give us your opinion on the role of women in Showa Shell?

In my conversation with Margaret Thatcher in the 1980s, the former prime minister of the United Kingdom, we discussed the active role of women. I believe this will truly be achieved when it becomes quite common to promote women based on their abilities rather than simply achieving numerical targets. In this sense, Japan clearly lags behind Europe and the United States. However, looking back at Showa Shell over the years, at least since my involvement with the Company, I have seen no instance where an employee has been judged based on gender. This is because Showa Shell's approach to diversity,

believing in the idea that a different sense of value creates new value without overly emphasizing the mere concept of "women in the workplace," has been instilled throughout the Company. By continuing such fair evaluation and efforts to raise women's awareness with regard to their careers through in-house career promotion activities and the ongoing cultural changes in society, I am confident that the number of women who play an active role in the Company will naturally increase.



Midori Miyazaki

External Audit & Supervisory Board Member  
Professor and Dean  
Faculty of Global Studies, Chiba University of Commerce  
External Audit & Supervisory Board Member at Showa Shell since 2006

### Q. What kind of expectations do you have for Showa Shell as well as the new company going forward?

I believe that corporations have a mission to shape the future. In other words, they have a mission to create new value to establish new lifestyles. Showa Shell is making efforts to accomplish this mission. The Company's Energy Solutions Business is the most representative in these efforts, and I hope that the Company further clarifies the role of this business in the Company as well as its intention to be an integrated energy company going forward. I believe this approach is important even after the business integration.

The new company will be bigger in size, and its business domains and regions will be broader in scope. I would like to see the Company maintain active communication with all stakeholders to properly convey the message that it is creating new value in answering the needs of society, while incorporating outside resources as it shapes the next generation.

The business integration presents an opportunity for both companies to rethink their identity. If the employees of the new company move forward with this fresh new approach while steadfastly working to create new value for the world, regardless of the differences in their personal attributes or in the companies from where they came, I believe the new company will be an excellent organization with high social value.

2013 Number of outside directors increased by 1  
Directors' term shortened from 2 years to 1 year  
Compensation Advisory Committee established

2014 Number of outside directors increased by 1

2015 Positions of chief executive officer (Group CEO) and chairman of the Board of Directors separated

2016 Number of outside directors increased by 1 (7 of 9 directors became outside directors)  
Nomination and Compensation Advisory Committee established

Corporate Governance System and Internal Control System

**Board of Directors**

In June 2015, the Company separated the roles of chief executive officer (CEO) and the chairman of the Board of Directors in the aim of further enhancing the effectiveness of management supervision and achieving more timely and more aggressive business execution. Recognizing the role that the chairman of the Board of Directors must play in supervising management, Minoru Takeda, a non-executive outside director, was selected for this position.

The Board of Directors consists of nine directors, seven of whom are outside directors. Board meetings are also attended by the four Audit & Supervisory Board members, of whom two are the external Audit & Supervisory Board members. The outside executives, who have international business experience and extensive knowledge in a variety of fields, offer suggestions and advice for maximizing corporate value based on their diverse and objective viewpoints.

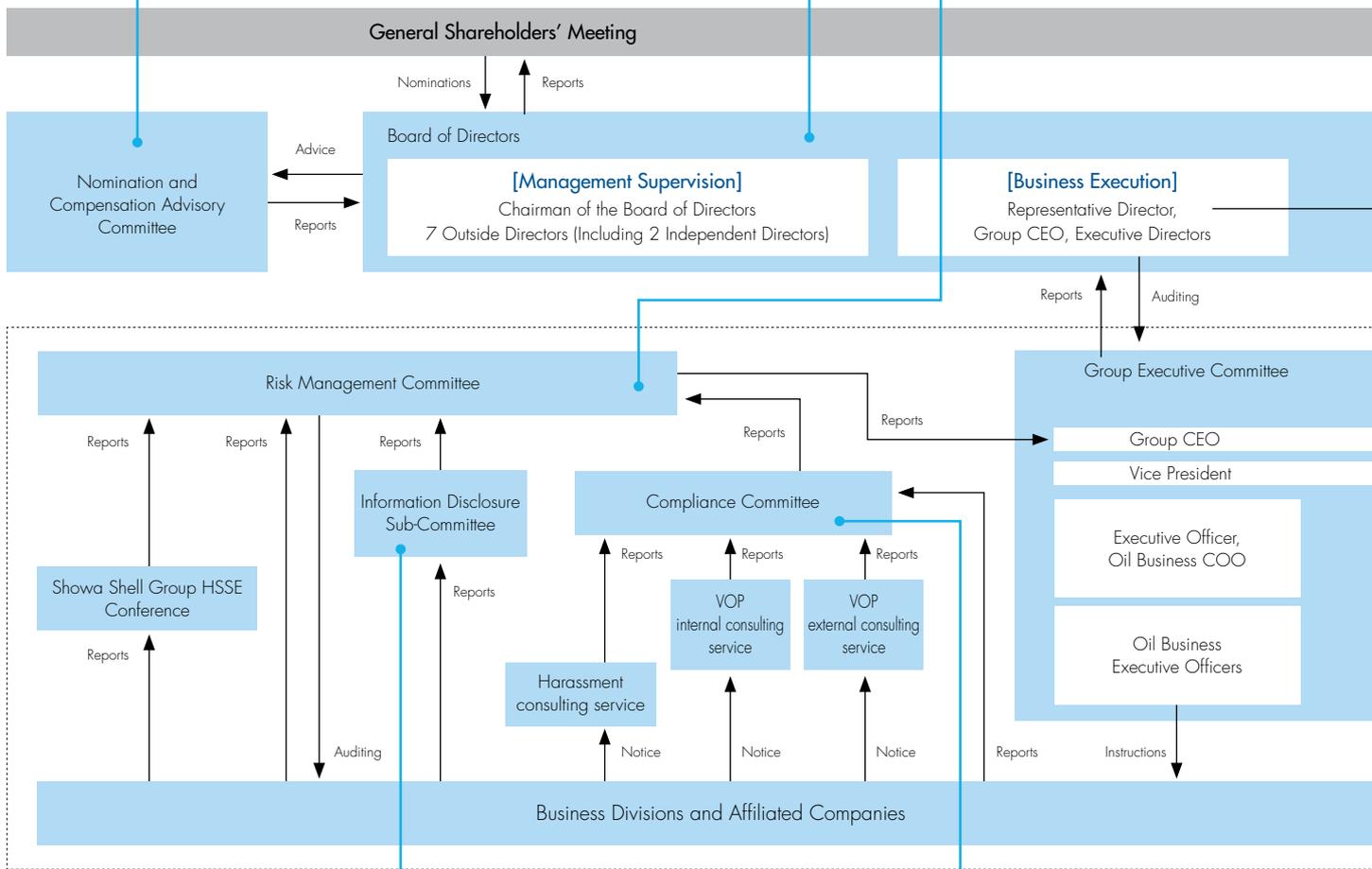
To ensure that the outside executives can fully participate in discussions at meetings of the Board of Directors, materials used at these meetings are distributed in advance, and pre-meetings are held to brief on the content of the agenda.

**Risk Management Committee**

Chaired by the Group CEO, this committee assesses the effectiveness of activities with regard to compliance and risk management, based on the Basic Policy on Internal Control System and the Group's Basic Policy for Health, Safety, Security and Environment (HSSE). The results of discussions by this committee are provided as suggestions or reported to the Board of Directors, as necessary.

**Nomination and Compensation Advisory Committee**

To ensure objectivity and transparency in the process of nominating and determining the compensation for the executives, the Company has established the Nomination and Compensation Advisory Committee, which mainly comprises outside executives. This committee submits reports to the Board of Directors on the basic policies and the standards related to the executive candidates and the remuneration decisions.



**Information Disclosure Sub-Committee**

This committee, which serves beneath the Risk Management Committee, conducts deliberations aimed at ensuring timely and appropriate information disclosure by the Group.

**Compliance Committee**

This committee receives compliance-related reports and consultation requests from Group companies, the "Voice of People (VOP)" employee help line, and the harassment hotline. Based on the reported content, the committee decides on how to handle and process this information, and reports to the Risk Management Committee, as necessary.

### Audit & Supervisory Board

The Company has adopted the Audit & Supervisory Board system. The board is made up of two standing Audit & Supervisory Board members and two external Audit & Supervisory Board members (independent Audit & Supervisory Board members). External Audit & Supervisory Board members in particular are selected for their broad-based knowledge, as well as the objectivity, neutrality, and specialized expertise that the auditing process requires. Audit & Supervisory Board members attend meetings of the Board of Directors and other important meetings, and receive reports on the status of operations from directors and executive officers, as well as from audit divisions, offices, subsidiaries, and other organizations. Audit & Supervisory Board members also receive reports from the accounting auditor with regard to the progress of the fulfillment of its duties. In this manner, they conduct business audits related to business execution by directors as well as accounting audits. They also monitor and consider the establishment and operational status of internal controls for the Group, including subsidiaries.

To ensure that external Audit & Supervisory Board members can sufficiently fulfill their supervisory function, materials on important meetings are distributed to them beforehand. Furthermore, a support structure is in place to provide them with any necessary briefings before and after meetings.

### Accounting Auditor

The Company has appointed PricewaterhouseCoopers Aarata as its accounting auditor to perform auditing, and pays compensation for their work.

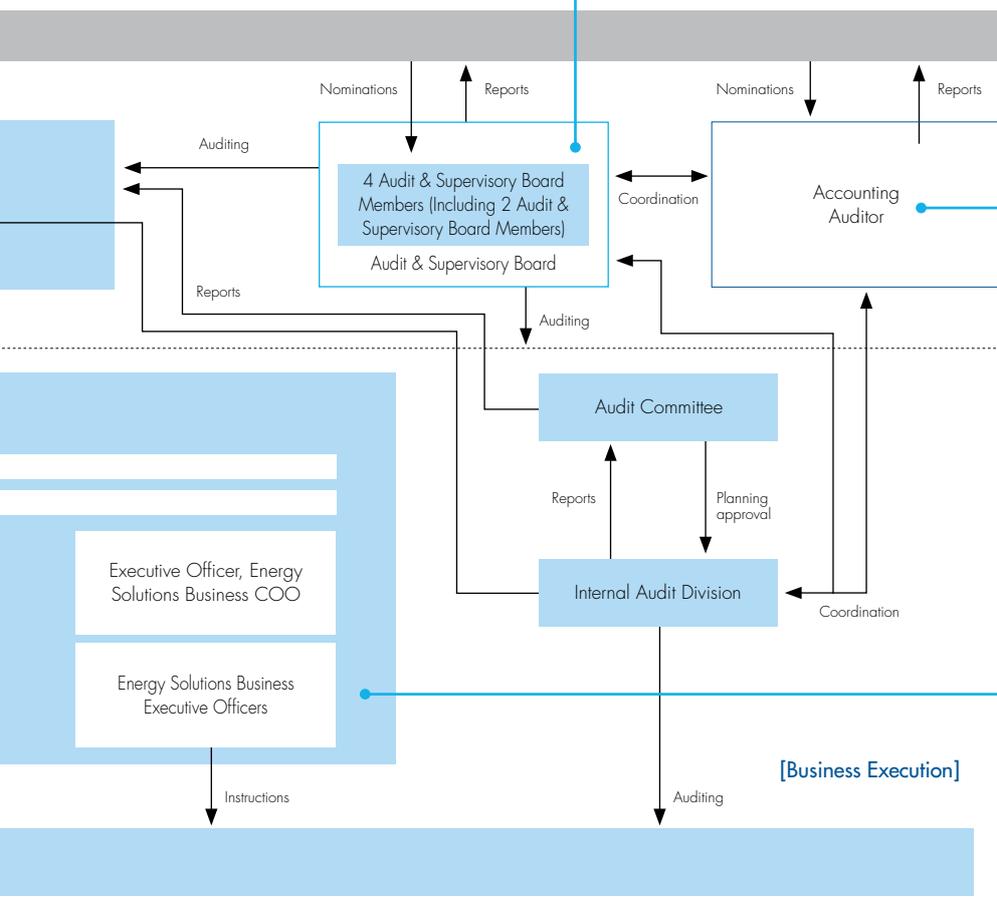
### Audit Compensation (Year Ended December 31, 2015)

Compensation based on audit certification activities

Showa Shell (Yen million)	Consolidated subsidiaries (Yen million)
116	54

Compensation based on non-audit activities

Showa Shell (Yen million)	Consolidated subsidiaries (Yen million)
—	2



### Group Executive Committee

The Company has introduced the executive officer system and has established the Group Executive Committee to serve as the highest decision-making body for business execution. In addition to approving business execution policies for each business, the committee seeks to maximize inter-business synergies. Committee members include the heads of the business segments—the Executive Officer and Oil Business COO, the Executive Officer and Energy Solutions Business COO, and the executive officers responsible for each of their business areas.

### Special Committee

In relation to the business integration with Idemitsu Kosan Co., Ltd., this committee was established in February 2015 as an advisory body to the Board of Directors to ensure transparency and fairness in the Company's decision-making process. The Special Committee has four members who are independent directors or independent Audit & Supervisory Board members of the Company: Yukio Masuda, Takashi Nakamura, Midori Miyazaki, and Kenji Yamagishi.

## Director and Audit & Supervisory Board Member Remuneration

The Nomination and Compensation Advisory Committee is composed of independent outside officers and others. The objective, transparent, and performance-based Basic Policy for Directors Compensation was formulated based on reports by this committee, and this policy was adopted following approval by the Board of Directors at a meeting held on November 5, 2013. This policy called for the portion of director remuneration linked to business performance to be increased and the fixed payment portion to be reduced in order to clearly link director performance with remuneration.

In accordance with this basic policy, the upper limit for total fixed remuneration paid to directors was reduced from ¥65 million to ¥45 million per month by a resolution at the General Shareholders' Meeting held on March 27, 2014. Within the limit of the total amount, monthly base remuneration to each director is determined using a remuneration table by rank, except for Douglas Wood (who stepped down on March 29, 2016), for whom base remuneration was determined by a secondment contract with the Shell Group. Performance-linked bonuses for directors are to be determined each year by resolution at the General Shareholders' Meeting in consideration of the operating environment and performance during the applicable fiscal year.

The total remuneration to all Audit & Supervisory Board members decided by the resolution of the General Shareholders' Meeting held on March 28, 2008, was ¥10 million or less per month. Within the limit of the total amount, remuneration to each auditor is determined by the mutual agreement among all Audit & Supervisory Board members. Bonuses for Audit & Supervisory Board members were abolished in 2013.

Retirement allowances to directors and Audit & Supervisory Board members were abolished as of the General Shareholders' Meeting held on March 29, 2007.

### Director and Audit & Supervisory Board Member Remuneration (Year Ended December 31, 2015)

Executive category	Total remuneration (Yen million)	Total remuneration by category (Yen million)		Number of executives subject to bonuses (People)
		Fixed remuneration	Bonuses	
Directors (excluding outside directors)	273	235	38	3
Audit & Supervisory Board members (excluding external Audit & Supervisory Board members)	72	72	—	4
Outside directors and Audit & Supervisory Board members	112	110	2	7

## Internal Control System

The Company has established the Basic Policy on Internal Control\* to configure an effective internal control system for the Group and increase management transparency and efficiency. Based on partial revisions to the Companies Act of Japan in 2015, the Company, as well as its subsidiaries, revised this policy, thereby putting in place an even more effective internal control system and ensuring its operation throughout the Group.

To ensure the system's effectiveness, the Risk Management Committee, chaired by the Group CEO, meets quarterly to improve and strengthen the internal control system by discussing corporate risks and other issues.

### Compliance

The Showa Shell Group recognizes that compliance, together with corporate ethics, is essential to achieving sustainable growth while fulfilling its social responsibility. Accordingly, we work to entrench compliance throughout all areas of the Group.

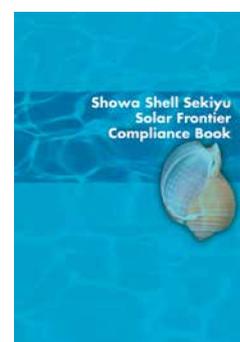
The Group has formulated its Code of Conduct\* as a universal code covering the development of corporate activities. In addition to legal compliance, this code clarifies the high degree of ethics required of the Group to fulfill its social responsibilities. The Group has established other compliance-related regulations, as well, including the Compliance Rules for the Antitrust Law, Government Anticorruption Rules, Insider Trading Control Rule, Environmental Preservation Guidelines, and Export Control Rule.

In order to enhance employees' understanding of compliance, top

management takes various opportunities to communicate the importance of compliance, and we distribute our *Compliance Book* to all employees and post its content on our website so that they can access it at any time.

To foster awareness and enhance knowledge of compliance, we conduct compliance training for each employee grade and worksite and operate e-learning programs. In addition, through the "Room of Compliance" intranet site for providing information to Group companies we regularly post examples of violations that have occurred at other companies and share cases of violations at Group companies to prevent their recurrence and similar violations from occurring. Furthermore, we seek to ensure fairness and transparency in our procurement activities. To this end, we have established the General Rule for Procurement,\* which highlights legal and corporate ethical compliance, as well as resource protection, environmental preservation, and other social and environmental considerations, and we seek to promote an understanding of these guidelines among our suppliers.

As a whistle-blowing system, we have introduced an employee consultation service, "Voice of People (VOP)," which encourages Company and Group employees to raise concerns about legal and Code of Conduct violations; this system enables employee input both



Compliance Book

within and outside the Company. After investigating and considering any information employees have shared, we take whatever measures are deemed necessary in accordance with our internal regulations. We have formulated Rules of the Group Companies' Help Line, "Voice of People," covering the system's operation, and systems are in place to protect the confidentiality of people undergoing consultation and to prevent them from adverse impacts.

Showa Shell's policy with regard to criminal organizations is to handle them through a Companywide approach. The departments in charge of related matters have been designated, and contact is maintained with the police and other external specialist institutions.

## Risk Management

To address risk characteristics of individual departments and subsidiaries that could affect the Group's corporate and business value, each year Showa Shell prepares a business control matrix (BCM). We use the BCM to identify the risks associated with business targets and ascertain the level of impact and control status of these risks. We promote control activities, introduce improvements, and perform monitoring to ensure that the BCM is functioning consistently and effectively. In 2015, we addressed legal violations and misconduct discovered at subsidiaries since 2014. Subsidiaries and related departments together worked to clarify and analyze risks specific to

subsidiaries and revised their operational manual and operational flow concerning the control of risks.

With regard to risks that need to be checked from a Company-wide perspective, such as the compliance and HSSE promotion structures and the business control structure, we have established business control checklists (BCCs) to enable comprehensive monitoring. Relevant executives and division heads use these BCCs to evaluate the risk management systems of their divisions on a yearly basis, creating a uniform management system. In 2015, we concentrated on measures targeting subsidiaries, such as the Board of Directors sharing information about risk evaluation. With regard to information management, in order to better instill at the workplace level the handling of intellectual property and compliance with regulations, we introduced new department-wide discussion and evaluation processes, in addition to evaluations by executives and departmental heads.

The results of BCM and BCC evaluations and analyses are reported to the Risk Management Committee.

Please see pages 4-6 for details on risk management related to HSSE.

## Information Disclosure and Dialogue with Shareholders and Investors

The Company has formulated the Basic Policy for Information Disclosure.\* Based on this policy, to promote an understanding and fair evaluation of the Group among various stakeholders, we work to ensure that important information is disclosed equitably, accurately, and in a timely manner. We also make a proactive effort to disclose other information. The Information Disclosure Sub-Committee deliberates on the handling of information for disclosure.

With regard to IR activities targeting shareholders and investors, we aim to fulfill our accountability to our shareholders and sustainably increase our corporate value by engaging in active and constructive dialogue with our shareholders and investors. Therefore, we have formulated the Policy on Constructive Dialogue with Shareholders under the Basic Policy on Corporate Governance.\* We disclose these policies on our website and conduct IR activities based on them.

When announcing business performance each quarter, the Company holds large meetings and telephone conferences for securities analysts and institutional investors in Japan. We provide audio recordings of these sessions on our website along with presentation materials. We communicate proactively with institutional investors in Japan and overseas, visiting investors and participating in conferences held by securities companies. For individual investors, we are working toward providing more information, mainly on our website. Furthermore, we publish a semi-annual business report booklet entitled *To Our Shareholders*, and we conduct shareholder questionnaires to enhance the dialogue. The shareholder and investor opinions obtained through such communications are reported to directors and Audit & Supervisory Board members, which are incorporated into management activities in the aim of enhancing corporate value.

\* The Basic Policy on Internal Control, Code of Conduct, General Rule for Procurement, Basic Policy for Information Disclosure, and Basic Policy on Corporate Governance are posted on our website.

● <http://www.showa-shell.co.jp/english/profile/mp-index.html>

Please see "Together with Our Shareholders and Investors" on pages 32 and 33 for details on our IR activities.

# ISO 26000 COMPARISON TABLE

Pages addressing issues core to ISO 26000	Issue	Pages
<b>Organizational Control</b>	<b>Issue 1:</b> Organizational Control and Corporate Governance	<p><b>Corporate Governance</b></p> <ul style="list-style-type: none"> <li>• <b>Corporate Governance Structure</b> ⇒P.34 Basic Policy on Corporate Governance Board of Directors and Audit &amp; Supervisory Board Members</li> <li>• <b>Interviews with Outside Director and External Audit &amp; Supervisory Board Member</b> ⇒P.36 and 37</li> <li>• <b>Director and Audit &amp; Supervisory Board Member Remuneration</b> ⇒P.40</li> <li>• <b>Internal Control System</b> ⇒P.40 and 41 Compliance Risk Management</li> <li>• <b>Information Disclosure</b> ⇒P.41</li> </ul> <p><b>HSSE</b></p> <ul style="list-style-type: none"> <li>• <b>HSSE Definitions</b> ⇒P.4</li> <li>• <b>HSSE Promotion System</b> ⇒P.5</li> <li>• <b>HSSE Management System (HSSE-MS)</b> ⇒P.5</li> <li>• <b>Security</b> ⇒P.9 and 10 Disaster Drills at Refineries Comprehensive Disaster Response Drills Fire-Fighting Drills</li> </ul>
<b>Human Rights</b>	<p><b>Issue 1:</b> Due Diligence</p> <p><b>Issue 2:</b> Crisis Conditions related to Human Rights</p> <p><b>Issue 3:</b> Preventing Complicity</p> <p><b>Issue 4:</b> Resolving Complaints</p> <p><b>Issue 5:</b> Discrimination and the Socially Vulnerable</p> <p><b>Issue 6:</b> Citizenship and Political Rights</p> <p><b>Issue 7:</b> Economic, Social, and Cultural Rights</p> <p><b>Issue 8:</b> Fundamental Principles and Rights of Labour</p>	<p><b>HSSE</b></p> <ul style="list-style-type: none"> <li>• <b>Health</b> ⇒P.6 Safety and Hygiene Committees Employee Health Management and Mental Health Health Counseling Desk</li> <li>• <b>Safety</b> ⇒P.7 and 8 Goal Zero Movement Safety Awards HSSE Site Visits by Executives</li> </ul> <p><b>Corporate Governance</b></p> <ul style="list-style-type: none"> <li>• <b>Internal Control System</b> ⇒P.40 and 41 Compliance Risk Management</li> </ul> <p><b>Together with Our Employees</b></p> <ul style="list-style-type: none"> <li>• <b>Talent Vision and Education Systems</b> ⇒P.26</li> <li>• <b>Creation of a Worker-Friendly Environment</b> ⇒P.27–29 Respect for Human Rights Discussions with Labor Unions Reemployment of People Retiring at Retirement Age Employment of Differently Abled People Systems to Promote Work-Life Balance Employee Opinion Surveys</li> </ul>
<b>Labor Practices</b>	<p><b>Issue 1:</b> Employment and Employment Relationship</p> <p><b>Issue 2:</b> Working Conditions and Social Protection</p> <p><b>Issue 3:</b> Dialogue with Society</p> <p><b>Issue 4:</b> Work and Labor Practices</p> <p><b>Issue 5:</b> Human Resource Cultivation and Training in the Workplace</p>	<p><b>HSSE</b></p> <ul style="list-style-type: none"> <li>• <b>Health</b> ⇒P.6 and 7 Safety and Hygiene Committees Employee Health Management and Mental Health Health Counseling Desk Status of OHSAS 18001 (Occupational Health and Safety Management) Certification</li> <li>• <b>Safety</b> ⇒P.7 and 8 Goal Zero Movement Safety Awards HSSE Site Visits by Executives</li> </ul> <p><b>Corporate Governance</b></p> <ul style="list-style-type: none"> <li>• <b>Internal Control System</b> ⇒P.40 and 41 Compliance Risk Management</li> </ul> <p><b>Together with Our Employees</b></p> <ul style="list-style-type: none"> <li>• <b>Talent Vision and Education Systems</b> ⇒P.26</li> <li>• <b>Creation of a Worker-Friendly Environment</b> ⇒P.27–29 Respect for Human Rights Discussions with Labor Unions Reemployment of People Retiring at Retirement Age Employment of Differently Abled People Systems to Promote Work-Life Balance Employee Opinion Surveys</li> </ul>
<b>Environment</b>	<p><b>Issue 1:</b> Preventing Pollution</p> <p><b>Issue 2:</b> Using Sustainable Resources</p> <p><b>Issue 3:</b> Mitigating and Responding to Climate Change</p> <p><b>Issue 4:</b> Environmental Conservation, Biodiversity, and Restoring Natural Habitats</p>	<p><b>HSSE</b></p> <ul style="list-style-type: none"> <li>• <b>Environment</b> ⇒P.10–20 Business Portfolio for Reducing CO<sub>2</sub> Emissions Structure for Promoting Environmental Preservation and Medium-Term Environmental Action Plan Important Areas for Reducing Environmental Footprint Preventing Environmental Pollution and Reducing Waste Preventing Environmental Pollution Waste Reduction Initiatives Medium-Term Environmental Action Plan (2013–2015, 2016–2018) Technology Development for Eco-Friendly Products</li> <li>• <b>Status of ISO 14001 (Environmental) Certification</b> ⇒P.17</li> </ul> <p><b>Together with Our Business Partners</b> ⇒P.25</p> <ul style="list-style-type: none"> <li>• <b>CSR- and HSSE-Minded Procurement</b></li> </ul>
<b>Fair Business Practices</b>	<p><b>Issue 1:</b> Preventing Corruption</p> <p><b>Issue 2:</b> Responsible Political Contributions</p> <p><b>Issue 3:</b> Fair Competition</p> <p><b>Issue 4:</b> Promoting Social Responsibility throughout the Value Chain</p> <p><b>Issue 5:</b> Respecting Property Rights</p>	<p><b>Corporate Governance</b></p> <ul style="list-style-type: none"> <li>• <b>Corporate Governance Structure</b> ⇒P.34 Basic Policy on Corporate Governance Board of Directors and Audit &amp; Supervisory Board Members</li> <li>• <b>Interviews with Outside Director and External Audit &amp; Supervisory Board Member</b> ⇒P.36 and 37</li> <li>• <b>Director and Audit &amp; Supervisory Board Member Remuneration</b> ⇒P.40</li> <li>• <b>Internal Control System</b> ⇒P.40 and 41 Compliance Risk Management</li> <li>• <b>Information Disclosure</b> ⇒P.41</li> </ul> <p><b>Together with Our Customers</b> ⇒P.21–24</p> <ul style="list-style-type: none"> <li>• <b>Conducting Responsible Manufacturing and Ensuring the Quality of Oil Products</b></li> <li>• <b>Conducting Responsible Manufacturing and Ensuring the Quality of CIS Thin-Film Solar Modules</b></li> </ul> <p><b>Together with Our Business Partners</b> ⇒P.25</p> <ul style="list-style-type: none"> <li>• <b>CSR- and HSSE-Minded Procurement</b></li> <li>• <b>Partnership with Contract Dealers</b></li> </ul> <p><b>Together with Our Shareholders and Investors</b> ⇒P.32 and 33</p> <ul style="list-style-type: none"> <li>• <b>Delivering Information to Shareholders and Investors</b></li> </ul>

Pages addressing issues core to ISO 26000	Issue	Pages
<b>Consumer Issues</b>	<p><b>Issue 1:</b> Fair Marketing, Unbiased Information, and Fair Contractual Practices</p> <p><b>Issue 2:</b> Protecting Consumer Safety and Health</p> <p><b>Issue 3:</b> Sustainable Consumption</p> <p><b>Issue 4:</b> Consumer Services, Support, and Complaint and Dispute Resolution</p> <p><b>Issue 5:</b> Protection of Consumer Data and Privacy</p> <p><b>Issue 6:</b> Access to Indispensable Services</p> <p><b>Issue 7:</b> Education and Awareness Building</p>	<p><b>HSSE</b></p> <ul style="list-style-type: none"> <li>• Status of ISO 9001 (Product Quality) Certification ⇒P.17</li> </ul> <p><b>Together with Our Customers ⇒P.21-24</b></p> <ul style="list-style-type: none"> <li>• Initiatives at Service Stations</li> <li>• Disaster Response Measures at Service Stations</li> <li>• Conducting Responsible Manufacturing and Ensuring the Quality of Oil Products</li> <li>• Conducting Responsible Manufacturing and Ensuring the Quality of CIS Thin-Film Solar Modules</li> </ul>
		<p><b>Together with Our Shareholders and Investors ⇒P.32 and 33</b></p> <ul style="list-style-type: none"> <li>• Delivering Information to Shareholders and Investors</li> <li>• 2015 Shareholder Questionnaire Results</li> <li>• Publication of Corporate Reports</li> </ul> <p><b>Together with Our Customers ⇒P.23</b></p> <ul style="list-style-type: none"> <li>• Initiatives to Improve Human Capabilities at Service Stations</li> <li>• Sales Promotion Advertisement &amp; Training Global Program</li> <li>• Showa Shell Royal Manager Certification Program</li> <li>• Showa Shell Oil Meister Certification Program</li> <li>• Showa Shell Car Life Advisor Certification Program</li> <li>• Lubricant Expert Program</li> </ul>
<b>Community Involvement and Development</b>	<p><b>Issue 1:</b> Community Involvement</p> <p><b>Issue 2:</b> Education and Culture</p> <p><b>Issue 3:</b> Creating Employment and Developing Skills</p> <p><b>Issue 4:</b> Technological Development and Access</p> <p><b>Issue 5:</b> Creating Prosperity and Income</p> <p><b>Issue 6:</b> Health</p> <p><b>Issue 7:</b> Social Investment</p>	<p><b>Together with Communities and Society ⇒P.30-32</b></p> <ul style="list-style-type: none"> <li>• Shell Art Award 2015</li> <li>• Energy Education Program for Children</li> <li>• 11th Environmental Photo Contest, "Things to Preserve and Correct around Our Town"</li> <li>• 11th Energy Sustainability Forum Public Symposium</li> <li>• <i>Teruha no Mori Ongaeshi</i> Forest Preservation Project</li> <li>• Participation in TABLE FOR TWO Cafeteria Charity Program</li> <li>• Provision of Office Space for Refugees International Japan</li> </ul>
		<p><b>Together with Our Customers ⇒P.24</b></p> <ul style="list-style-type: none"> <li>• Disaster Response Measures at Service Stations</li> </ul>

## Corporate Report 2016

Corporate Report 2016 contains more detailed information on the Showa Shell Group's management strategies and business activities.

● <http://www.showa-shell.co.jp/ir/corporate/index.html>

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