

RISK MANAGEMENT

Our Stance on Risk Management

Based on the Risk Management System Guidelines, each division and subsidiary identifies the risks unique to them that could have an impact on the corporate value or business of the Group, based on which we prepare a business control matrix that summarizes the likelihood of risks arising, impact, countermeasures, and status of controls. For continuous and effective function of the business control matrix, we promote, improve and monitor control activities.

Meanwhile, for the risks which could require regular checks on a company-wide level, we prepare the business control checklist stipulating items for assessing the overall management status. The control structure is evaluated every year by each executive, division manager and representative of subsidiaries based on this business control checklist as part of a system for uniform management of risks that has been put in place.

Risks related to the Group's business and financial conditions that might have important impacts on the decisions of investors are as follows.

- Risks related to the impact of energy demand and product market conditions
- Risks related to fluctuations in prices of crude oil and raw materials, and exchange rates
- Risks related to suppliers of crude oil and raw materials
- Risks related to competition with other companies or technological innovation
- Risks related to environmental regulations and taxation, etc. imposed on business activities
- Risks related to suspension or limitation of business activities as a result of disasters, accidents, etc.
- Risks related to the establishment of internal control systems
- Risks related to intellectual property rights
- Risks related to product liability
- Risks related to control of personal data
- Risks related to retirement benefits

*Details on each risk are stated in the Corporate Report 2018.

In addition, the following risks are recognized and managed as risks related to ESG.

- Climate change
- Environmental preservation
- Crisis management
- Product safety
- Human rights
- Human resources
- Health and safety of employees
- Compliance

etc.

Information Security Management

The Information Management Rules have been established and implemented for the purpose of achieving the secure preservation and efficient use of information that is a company asset in an effort to strengthen the business management foundations of Showa Shell Group. These rules prescribe matters such as the confidentiality classification of information and management system in an effort to ensure the accuracy and reliability of corporate information and establish an information security management system.

Information Management Rules (Table of Contents)

- Chapter 1. General Provisions
- Chapter 2. Basic Responsibilities of Employees
- Chapter 3. Information Management System
- Chapter 4. Information Requiring Confidentiality
- Chapter 5. Information Records Lifecycle
- Chapter 6. Distribution of Information Records, etc.
- Chapter 7. Legal Holds

In addition, Basic Policy for Personal Data and Individual Numbers (My Number) etc. Protection has been established and implemented in recognition of the importance of the individual numbers (My Number) and protection of personal data contained within in order to fulfill our responsibilities towards various stakeholders and achieve sustainable development.

Crisis Management Initiatives

As the Company 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 a disaster or other emergency. Accordingly, we have formulated the Crisis Management Plan (CMP) and Business Continuity Plan (BCP), and conduct regular drills as part of our efforts to strengthen our group crisis management system.

Comprehensive Crisis management Drills

The Company has formulated CMP and 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, 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 drills based on these plans every year.

Because a large percentage (80%) of earthquake disasters occur on holidays or at night and the establishment of an emergency response headquarter (HQ) can be essential depending on the scale of the disaster, holiday emergency response drill was held in June 2017 without releasing the schedule. During the drill, we confirmed the time required for company-wide emergency response HQ members to arrive at the company on holidays, whether authority could be smoothly delegated to substitutes when

it was not possible to arrive at the company, and the time required to establish an emergency response HQ after company-wide emergency response HQ members had arrived at work.

CMP and BCP drills were conducted assuming an epicenter under the Tokyo metropolitan area in November 2017.

In the CMP drill, it was assumed that the head office was not functioning, and the safety and status of damages at business locations was confirmed by the Kinki Branch that served as an alternative emergency response HQ while coordinating with the head office using Skype.

In the BCP drill, the Kinki Branch and the Supply Division of head office worked together in order to establish a structure for making 50% of shipments from damaged refineries within 24 hours after the earthquake occurrence and securing shipment resources (production and importation) equivalent to one month.

We will continue conducting regular comprehensive crisis management drills in the future in order to verify and improve the effectiveness of the crisis management system against disaster.

Acquired Highest Rating in BCP Assessment

Since 2013, the Ministry of Economy, Trade and Industry has conducted an assessment every year on the BCP (business continuity plans) in the industry (petroleum industry), and it has made an assessment based on 18 items that include supply recovery targets, ensuring the head office function, and gathering safety information.

In response to the suggestions we receive every year from the Ministry of Economy, Trade and Industry, improvement points are identified by the related divisions led by the President, Executive Officer, CEO, and these points are incorporated in training for the next fiscal year. The Ministry of Economy, Trade and Industry observed and assessed comprehensive crisis management drills held at the Kinki Branch in November 2017. We received a rating of "Outstanding" for all 18 items and the highest rating of "S" as the overall assessment in 2017.

This was the first time that an "S" rating had been acquired for the petroleum industry, as the Ministry of Economy, Trade and Industry recognized that there had been significant improvements in the Company's BCP initiative as outstanding efforts in advance of other industries.



Comprehensive crisis management drills

Measures Against Large-Scale Earthquake

Since the Great East Japan Earthquake, we have been carrying out drills in each division that assume earthquakes hit under the Tokyo metropolitan area or in the Nankai Trough. At various group refineries, we have conducted evacuation drills with around 1,000 participants during regular repairs and drills for putting on gas masks in response to the occurrence of toxic gas. In addition, we have consulted with neighborhood fire stations and police stations to confirm cooperative systems for the priority passage of designated vehicles during a disaster. In the Transportation Division, we are putting in place a tank truck-based transportation system at alternative locations to operate in a disaster, and the Sales Division has created a disaster-response manual for service stations and held briefings. In these ways, we are working to enhance our crisis management system for the supply chain of the entire group.

Firefighting 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 they 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 the Group employees but also for companies in and out of Niigata, thereby helping Showa Shell fulfill its social responsibility by coexisting with and contributing to the community. It is also used by local firefighting brigades and schools. The training has been highly evaluated for their specialized knowledge. In the 24 years since the center first opened, 6,962 people participated in the training.



Firefighting Drills