

## Procurement

For the Showa Shell Group, social and environmental mores, compliance with laws and corporate ethics, resource protection, environmental preservation and resource management are important factors in purchasing decisions. These are of course in addition to economic considerations. The company's purchasing procedures are fair and transparent and

are based on a commitment to fair competition.

In implementing this philosophy, the company asks its business partners to understand Showa Shell's Code of Conduct and work together in a spirit of mutual trust to achieve its objectives. Showa Shell is committed to implement its purchasing procedures based on the following principles:

### Basic Policy on Purchasing

The Showa Shell Group has developed strong partnerships and cooperative relationships with suppliers in order to maintain successful relationships with both society and Showa Shell Group companies. We have done so by implementing reciprocal relationships and enforcing cost competitiveness.

- **Equal opportunities**

The Showa Shell Group provides equal opportunities for not only domestic but also foreign suppliers with respect to fair competition.

- **Fairness in procurement**

The Showa Shell Group makes its procurement decisions based not only on considerations of economy, quality, technological development ability, delivery time, reliability, safety, and aftercare, but also in light of the counterpart company's social responsibility efforts, especially environmental protection.

- **Transparency**

The Showa Shell Group is open with its procurement policies, information, and procedures. It also indicates the reasons behind procurement decisions as requested.

- **Legal compliance**

The Showa Shell Group complies with the form and spirit of related legal regulations in its purchasing transactions. It also observes its own internal regulations.

- **Integrity in procurement**

The Showa Shell Group upholds the Group's Code of Conduct in all its business activities. Offering, paying, requesting, or receiving bribes is strictly prohibited. Conflicts of interest between personal and company economic activities are avoided. Showa Shell asks all business partners for their understanding and cooperation with its Code of Conduct.

- **HSSE (Health, Safety, Security, and Environment) and CSR**

Both HSSE and CSR are crucial for the Showa Shell Group's sustainable development. The Group seeks the understanding and cooperation of its business partners in its CSR activities.

### Promoting Green Procurement

Showa Shell has always actively promoted recycling of paper and oil barrels. The company conducted a survey on environmental protection among its business partners in 2002, receiving responses from 250 companies. More than 90% of them reported implementing some measures in consideration of environmental issues. This reconfirmed a high level of awareness. The company put issued the Green Procurement Guidelines in July 2003 to address environmentally-friendly procurement of materials, works, and services. The objective of these guidelines is to define evaluation standards to promote green procurement in an effort to reduce environmental impact. The guidelines are intended to be used not only by Showa Shell, but also as much as possible by all group companies, as well as related companies such as cooperating companies and affiliated dealers. In 2004, 19 consolidated subsidiaries met Showa Shell's expectations by starting to practice green procurement. As concern for environmental protection continues to rise, Showa Shell has taken steps to make its procurement policy clear to its

suppliers. In 2005, the company moved forward with the establishment of green purchasing procedures, and specified evaluation and inspection procedures. Because compliance with all related internal regulations that bear on Showa Shell is very difficult, the company will prepare a revised edition of its Green Purchasing Guidelines in 2006.

In Europe, the RoHS Directive ("the restriction of the use of certain hazardous substances in electrical and electronic equipment") came into force in July 2006, strengthening regulation of substances that impose an environmental impact. This reflects the growing strength of requests from society for more intensive environmental protection efforts.

Showa Shell also requires legal compliance in its lubricating oil and grease products, with regard to its procurement of additives, containers, and accessories containing regulated chemical substances. In 2005, the company completed its confirmation of compliance by all suppliers. Legal compliance with regard to regulated chemical substances is also a requirement of the company's purchasing in other areas.