This environmental report review/registration mark indicates that the environmental information in this report is reliable insofar as it satisfies the environmental report review/registration mark standards of the Japanese Association of Assurance Organizations (http://www.j-aoei.org/).
Corporate and Group Information

**Financial Highlights**

For detailed information on business performance, financial data and the third medium-term consolidated management plan, refer to Nippon Oil’s annual report and website.

- [http://www.eneos.co.jp/english/ir/](http://www.eneos.co.jp/english/ir/)

**Consolidated Net Sales**

<table>
<thead>
<tr>
<th>FY06</th>
<th>FY05</th>
<th>(Billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,224.2</td>
<td>4,110.0</td>
<td></td>
</tr>
</tbody>
</table>

**Consolidated Net Income and Consolidated Operating Income**

<table>
<thead>
<tr>
<th>FY06</th>
<th>FY05</th>
<th>(Billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>201.5</td>
<td>166.5</td>
<td></td>
</tr>
</tbody>
</table>

**Consolidated Return on Equity**

<table>
<thead>
<tr>
<th>FY06</th>
<th>FY05</th>
<th>FY04</th>
<th>FY03</th>
<th>FY02</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.8%</td>
<td>16.0%</td>
<td>5.9%</td>
<td>6.0%</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

**Feature 1**

Clean Development Mechanism (CDM) Project

**Feature 2**

Meeting the Challenges of Realizing a Hydrogen-based Society

**Feature 3**

Service Stations as Bases for Earthquake Response

**Corporate and Group Information**

1. Corporate and Group Information
2. Scope of Report, Editorial Objectives
3. Management Commitment
4. Nippon Oil Corporation Group Philosophy

**Scope of Report**

- Reporting period: This report focuses on fiscal 2006, ended March 31, 2007, but it may also include more recent information.
- Organizational units: The data and reports cover the 18 main companies of the Nippon Oil Corporation Group (Nippon Oil Group).

- Petroleum product marketing
- Refining and processing of petroleum products
- Manufacturing, processing and sale of petrochemical products
- Exploration & Production business
- Oil storage
- Lubricants
- Oil transport
- Construction & Engineering
- Related operations

**Editorial Objectives**

This report has been prepared with the objective of providing a conscientious and easy-to-understand disclosure of information related to the corporate social responsibility (CSR) activities of the Nippon Oil Group. This report has the following important features:

- Beginning with the issuance of the Group’s Environmental Report in 2003, the Group has published reports focusing on its environment-related activities. In 2003, the Group issued its Sustainability Report 2003, which included reports on social matters. Recently, along with the positioning of CSR activities as a basis for corporate management, the name of this report has been changed to the CSR (Corporate Social Responsibility) Report.

**Other Publication**

Annual Report 2007

A report on the strategies, activities, and performance of the Nippon Oil Group.

This can be obtained from website: [http://www.eneos.co.jp/english/ir/library](http://www.eneos.co.jp/english/ir/library)
Corporate and Group Information

Financial Highlights

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http://www.eneos.co.jp/english/ir/

Corporate and Group Overview

Company name: Nippon Oil Corporation (Nippon Oil)

Founded: May 10, 1968

Representative Director, Chairman of the Board: Fumaki Watanabe
Representative Director, President: Shigeyoshi Toyoda

Capital: ¥18.4 billion

Nonconsolidated net sales: ¥4,366.0 billion (FY2006)

Consolidated net sales: ¥6,924.2 billion (FY2006)

Number of employees (nonconsolidated basis): 2,408 (as of March 31, 2007)

Number of employees (consolidated basis): 13,214 (as of March 31, 2007)

History

1968: Nippon Oil Corporation established

1991: Three Group refining companies merged, creating Nippon Petroleum Refining Corporation

1997: Nippon Petroleum Refining Company Limited established as a 50%-50% joint venture by Nippon Oil and Caltex

2002: Koa Oil Co., Ltd. established

2003: Nippon Petroleum Refining Company, Limited established as a 50%-50% joint venture by Nippon Oil and Caltex

1998: Nippon Oil Information Technology Corporation

2002: Three Group refining companies merged, creating Nippon Petroleum Refining Company, Ltd.

Company name changed from Nippon Mitsubishi Oil Corporation to Nippon Oil Corporation

Other Publication

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Petroleum product marketing

Oil storage

Lubricants

Construction & Engineering

Refining and processing of petroleum products

Exploration & Production business

Oil transport

Manufacturing, processing and sale of petrochemical products

Social Responsibility

Promoting CSR

Environmental Harmony

31 Social Contributions

33 Respect for Human Rights and Dignity

Corporate and Group Information

1 Scope of Report, Editorial Objectives

2 Management Commitment

3 Nippon Oil Corporation Group Philosophy

7 Feature 1 Clean Development Mechanism (CDM) Project

9 Feature 2 Meeting the Challenges of Realizing a Hydrogen-based Society

11 Feature 3 Service Stations as Bases for Earthquake Response

13 Promoting CSR

15 Corporate Governance

16 Compliance

17 Ensuring Safety

19 Crisis Management

20 Quality Assurance

Environmental Efficiency and Environmental Accounting

Social Responsibility

Promoting CSR

Environmental Harmony

Social Contributions

Respect for Human Rights and Dignity

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Management Commitment

Stable Energy Supply and Environmental Harmony: The Two Pillars of CSR Management

Nishio: The Nippon Oil Group works to ensure stable energy supplies and environmental harmony on the basis of our Group Philosophy, “Creating the energy future and promoting prosperity and harmony with nature.”

Kubo: As an ordinary citizen, I also readily sense the importance of energy and the environment. Calling this a social responsibility may be an overstatement, but in my own way I try to think about and practice energy conservation and do things that are good for the environment within the scope of what is possible. As a corporation, where does Nippon Oil place emphasis in terms of its CSR activities?

Nishio: In the case of a corporation, first of all the awareness of each and every employee is important. In December 2006, we revised the standards of conduct for employees of the Nippon Oil Group. As a company, it is not possible for us to engage in CSR without all Group employees having the same awareness of issues and making efforts on this basis.

Kubo: So it is important for every individual to know his or her responsibilities and act on this basis. Given this, what are some of the specific initiatives the Nippon Oil Group is engaged in?

Nishio: We divide the social responsibilities of the Nippon Oil Group into two broad categories. The first is the stable supply of energy, namely, petroleum and natural gas. Sources of energy will diversify in the future, but for the time being petroleum remains our main source. We purchase crude oil as well as produce it at locations overseas. The crude oil is then transported to Japan, processed at refineries at various sites and sold through a network of some 10,000 service stations across the country. This integrated operating system is what maintains stable petroleum supplies; which means a stable supply of energy for Japan. Additionally, we are in the process of making various infrastructure reinforcements at our service stations to make sure energy can be supplied even following an earthquake.

Kubo: It could be said then that energy security is becoming more and more important with regard to supporting the sustainable development of Japan’s economy.

Nishio: The other broad category of our social responsibility is working for environmental harmony by developing technologies for the efficient use of petroleum and natural gas, as well as by developing and marketing products and services that are effective in conserving energy and reducing CO2 emissions.

Kubo: How are these responsibilities reflected in your products?

Nishio: To give an example, we were the first company in the world to sell sulfur-free fuel oil products, which include our environmentally friendly premium gasoline, “ENEOS NEW VIDO.” The sulfur content of gasoline and diesel fuel has been kept to 10 ppm or less, in anticipation of future government regulation. Vehicles that are compatible with sulfur-free fuel oil become even more popular in the future; it would likely reduce CO2 emissions by 12 million tons a year. We also succeeded in commercializing residential-use LPG-powered and kerosene-powered fuel cell systems. This was also a worldwide first.

Kubo: Biomass fuel and the like have received attention with regard to CO2 reduction.

Nishio: Biomass fuel is an effective means for helping to prevent global warming because CO2 is absorbed in the process of growing the plants that are its raw materials. The Petroleum Association of Japan began trial sales of a biogasoline at 50 service stations in the Tokyo metropolitan area in April 2007. By fiscal 2010 we hope to provide the crude oil equivalent of 210,000 kiloliters of bioethanol, which would reduce CO2 by 600,000 tons per year.

Kubo: I understand there were also significant results in the oil-producing operations mentioned earlier.

Nishio: At the Rang Dong oil field in Vietnam, associated gas given off in producing crude oil is recovered and effectively utilized as fuel for power plants. As one of the world’s largest projects for reducing CO2, the initiative has been certified as a Clean Development Mechanism (CDM) by the CDM Executive Board. In addition, as an energy company based in Japan, which is an advanced nation in terms of energy conservation, we provide technical assistance to countries in Asia and the Middle East.

Promoting R&D on Hydrogen and Other New Energy Sources, in Anticipation of Society’s Future Energy Requirements

Kubo: Your Group Philosophy includes the phrase, “Creating the energy future.” Are you currently involved in any projects that are geared to 10 or 20 years down the road?

Nishio: We are currently involved in research on hydrogen. Hydrogen energy does not give off CO2 or harmful substances. For this reason it has been called the ultimate energy for realizing a sustainable society.

Kubo: How will hydrogen be supplied as a source of energy in the future? I would guess that system and infrastructure development would be the key to its widespread use.

Nishio: When society comes to use hydrogen as its primary source of energy, I think that service stations will have evolved into hybrid stations capable of supplying both hydrogen and petroleum, which is what hydrogen is made from. The energy supply system will likely consist of large, stationary fuel cells at service stations and micro-grids that supply heat to houses and micro-grids that supply electricity and...
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Contributing to the Realization of a Sustainable Society Through CSR Activities

Kubo: CSR activities often emphasize social contributions linked to local communities. Is this the case for the Nippon Oil Group as well?

Nishio: We carry out a variety of activities in collaboration with local government bodies, non-profit organizations and other groups, which include helping to protect forests and provide environmental education. Here at Hibiya Park we even help maintain the flowerbeds.

Kubo: Having talked with you today, I’ve come to realize that the Nippon Oil Group’s CSR activities span a very wide scope. Why is this?

Nishio: That’s exactly right. CSR activities don’t necessarily consist of anything special; our core business itself is a form of CSR activity. I firmly believe that carrying out business with a constant awareness of one’s social responsibilities translates into improving the overall corporate value of the Group.

Kubo: I would definitely appreciate your continuing to carry out these initiatives. I feel this as a consumer and as an ordinary citizen.

Nishio: The continued existence and development of the Nippon Oil Group will not be possible without harmony with society and the environment. We also have a framework, which includes the Nippon Oil Group CSR Meeting, for ensuring CSR activities are engaged in by the Group as a whole. With a goal of helping realize a sustainable society, we are committed to continuing to strongly promote CSR management directly linked to our day-to-day corporate activities and ensure the satisfaction of all stakeholders.

Nippon Oil Corporation Group Philosophy

Group Philosophy

Your Choice of Energy

Creating the energy future and promoting prosperity and harmony with nature

Standards of Conduct

In the spirit of the “Group Philosophy” and the “Six Values We Respect” I will comply with social norms, laws, regulations, and internal rules, and I will:

Towards Customer Satisfaction

(1) Strive to improve the quality of services and products for the satisfaction of customers.
(2) Provide customers with appropriate and easy-to-understand explanations for the correct use of products.
(3) Respond in good faith to accidents, problems, and complaints and strive to prevent their recurrence.
(4) Strive to improve the quality of work and employ new ideas rather than adhering to conventional methods and concepts.
(5) Together with colleagues, strive to improve the quality of work.

Towards the Safety of People and Protection of the Environment

(1) Properly handle hazardous materials such as petroleum products and high-pressure gas.
(2) Strive to prevent accidents by conducting rigorous inspections and maintenance of equipment as well as operating procedures.
(3) Strive to reduce the risks to, and impact on the environment by taking initiatives in energy conservation, waste reduction, and the prevention of global warming.
(4) Strictly manage toxic substances that have the potential to affect the environment and human health and endeavor to reduce such substances.
(5) Strive to develop new technologies for the protection and preservation of the environment.

Towards Respecting Individuals

(1) Not engage in any form of discrimination by and prejudice to nationality, race, beliefs, gender, sexuality, social position, disability, disease or any other personal traits.
(2) Respect the individual personality and diversity of each person, and not engage in any form of harassment.
(3) Respect the culture and customs of the people of all countries or regions.
(4) Not to be involved in any infringements of human rights by engaging in any child labor or forced labor, in all countries or regions.
(5) Strive to create a friendly and creative workplace where each person can freely exchange their views.

Towards Contributing to Society

(1) Foster communications with local communities to facilitate mutual understanding.

Six Values We Respect

Ethics

New ideas

Environmental harmony

Relationships

Global approaches

You

(2) Actively participate in or support activities for the conservation and protection of the environment.
(3) Actively participate in support and rescue activities in the event of a disaster.
(4) Actively participate in or support activities for promoting culture, sports, welfare, and other similar activities.
(5) Strive to research and develop advanced technologies.

Towards the Proper Handling of Information

(1) Not use information in the Company’s possession for non-business purposes.
(2) Not, without authority, alter and/or destroy the information in the possession of the Company or remove the information from the Company premises.
(3) Pay careful attention to the handling of personal information to prevent any violation of privacy.
(4) Prevent unauthorized access to protected information and do not obtain any information in any unlawful means.
(5) Disclose information in a fair and proper manner designed to ensure that the business activities of the Company are correctly understood.

Towards Fairness and Integrity in Conducting Business

(1) Not engage in unfair business practices, including collusive bidding and other unlawful restrictions of trade such as cartels, controlling of resale prices, anti-competitive pricing, and discriminatory pricing.
(2) Not engage in making false statements, fraudulent advertisements, and sales with unlawful premiums.
(3) Not engage in unfair transactions by abusing a dominant bargaining position.
(4) Honor the intellectual property rights of others, including patent rights, trademark rights and copyright, and not infringe them.
(5) Strive to maintain the security of the Company’s assets, including confidential information and know-how, and not use them illicitly.
(6) Not profit from business partners by abusing an official position.
(7) Not provide for illicit purposes any type of benefits, including money or goods, to public officials of domestic or foreign countries or individuals of similar stature.
(8) Not buy or sell shares using insider information.
(9) Confidently and consistently comply with the laws and regulations regarding the control of exports when exporting or supplying products and/or technologies overseas.
(10) Not engage in any transaction with organized crime groups (or any member of them) or other antisocial individuals or antisocial groups (or any member of them).

* For executives and employees of Nippon Oil and Nippon Petroleum Refining
Contributing to the Realization of a Sustainable Society Through CSR Activities Linked Directly to Day-to-Day Business

Kubo: CSR activities often emphasize social contributions linked to local communities. Is this the case for the Nippon Oil Group as well?

Nishio: We carry out a variety of activities in collaboration with local government bodies, non-profit organizations and other groups, which include helping to protect forests and provide environmental education. Here at Hibiya Park we even help maintain the flowerbeds.

Kubo: Having talked with you today, I’ve come to realize that the Nippon Oil Group’s CSR activities span a very wide scope. In a sense, one could say that your everyday corporate activities are in themselves CSR activities.

Nishio: That’s exactly right. CSR activities don’t necessarily consist of anything special; our core business itself is a form of CSR activity. I firmly believe that carrying out business with a constant awareness of one’s social responsibilities translates into improving the overall corporate value of the Group.

Kubo: I would definitely appreciate your continuing to carry out these initiatives. I feel this as a consumer and as an ordinary citizen.

Nishio: The continued existence and development of the Nippon Oil Group will not be possible without harmony with society and the environment. We also have a nationwide, networked infrastructure in the form of service stations and we already possess substantial know-how on producing hydrogen. We also have the production network, including service stations, to play a large role in the coming hydrogen-based society.

Kubo: So as a general energy supplier, the Nippon Oil Group has an important role to play in making hydrogen a practical reality.

Nishio: Actually, large volumes of hydrogen are needed to make petroleum products, so we already possess substantial know-how on producing hydrogen. We also have a nationwide, networked infrastructure in the form of service stations. I am proud to say that we will have an extremely large role to play in the coming hydrogen-based society.

Kubo: What are the areas of emphasis in your research on hydrogen?

Nishio: At present, it is important to expand the scope of research on basic technologies. With this in mind we created the ENEOS Hydrogen Trust Fund in March 2006. The fund will pay for innovative basic research directed toward the realization of a hydrogen-based society.

The fund will give rise to a large number of new technologies, which we expect will hasten the arrival of a hydrogen-based society.

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A Major Step in Protecting the Environment

Clean Development Mechanism (CDM) Project

One of the world’s largest successful projects to reduce CO₂ and the first of its kind. The international rules we have created have produced significant results in the area of preventing global warming.

Promoting a project to reduce CO₂ that is garnering praise and expectations around the world

Rang Dong oil field associated gas recovery and utilization CDM in Vietnam

Reducing CO₂ by approximately 6.8 million tons

Global warming has become a serious problem for the entire world. CO₂ is a greenhouse gas, the main cause of global warming. We at the Nippon Oil Group are involved in promoting a project to reduce CO₂ at the Rang Dong oil field, which is located offshore of southern Vietnam. Japan Vietnam Petroleum Co., Ltd. (a subsidiary of Nippon Oil Exploration) produces crude oil at the field as its operator. Associated gas that is given off when producing crude oil have normally been flared offshore. This project effectively utilizes associated gas by recovering it and supplying it through a new pipeline constructed on the sea floor so that they can serve as fuel for power plants and other facilities in Vietnam. The project has made it possible to reduce consumption of conventional fuels for power generation and cut CO₂ by approximately 6.8 million tons (680,000 tons annually).

World’s first methodology (international rules) established for associated gas recovery and utilization CDM

This project was registered as a CDM* in February 2006. It is the world’s first CDM involving the recovery and effective utilization of associated gas and one of the world’s largest CO₂ emission reduction CDM. Nippon Oil independently created, proposed and established the methodology (international rules) for this CDM. At present, these international rules are being utilized in CDMs around the world in reducing CO₂ through the recovery and utilization of associated gas. In general, projects of this type that reduce CO₂ through the effective utilization of energy are expected to deliver significant results in terms of helping to prevent global warming and have received acclaim for their contribution to the sustainable development of developing countries.

Clean Development Mechanism

The Nippon Oil Corporation is actively involved in social contribution activities in Vietnam.

Muong Phang Elementary School (2002)

We contributed funds for the construction of an elementary school in the village of Muong Phang, which is located in a mountainous region of northwestern Vietnam near the border with Laos. Every year employees from the Vietnam office of Japan Vietnam Petroleum visit the school, which requires a journey of over a day and a half each way. The company donates educational supplies and employees interact with the children.

Rehabilitation Center (2005)

Nippon Oil donated funds for construction of a rehabilitation center in the Gio Linh of Quang Tri Province (central Vietnam), which was the site of fierce fighting during the Vietnam War, to help children with physical disabilities. Training is conducted at the center under the direction of doctors and nurses to help many children overcome their disabilities.

CDM projects involving CO₂ emission reduction contribute to the sustainable development of developing countries

This project represents the first CDM anywhere in the world involving associated gas recovery and utilization. We conducted the entire process, from establishment of the methodology to creation of the project design document and application and approval by the CDM Executive Board. Actual implementation encountered a series of difficulties and involved much trial and error, as the international rules were in the development stage and unclear. We were able to overcome these difficulties thanks to the support we received from the Vietnamese and their strong expectations for the project. The project was highly regarded by the Vietnam government due to its significance in helping Vietnam improve its energy self-sufficiency. The Local People’s Committee, which represents the community, also praised the project for its contribution to the lives of local residents. Training for the Vietnamese staff involved in the project started simply with an explanation of the problem of global warming but they have all now developed into CDM experts. This project, which was realized through the cooperation of many people in Vietnam, is now spreading to other countries and regions through the international rules established by Nippon Oil. Expectations are high that the same kind of initiatives will be further developed in other countries in the future, with the strong support of local residents.

Social contribution activities in Vietnam

The Nippon Oil Group is actively involved in social contribution activities in Vietnam.

Executive Board issued by the CDM

CDM Executive Board

Shinichi Tsuchida

Environment Planning Group

Shinichi Tsuchida

Environment & Safety Dept.

Nippon Oil Corporation

Environmental Manager

Environment & Safety Dept.

Shinichi Tsuchida

Environmental Manager

Nippon Oil Corporation

8 CSR Report 2007
A Major Step in Protecting the Environment

Clean Development Mechanism (CDM) Project

Promoting a project to reduce CO2 that is garnering praise and expectations around the world

Rang Dong oil field associated gas recovery and utilization CDM in Vietnam

Reducing CO2 by approximately 6.8 million tons

Global warming has become a serious problem for the entire world. CO2 is a greenhouse gas, the main cause of global warming. We at the Nippon Oil Group are working hard to reduce CO2 emissions. The Nippon Oil Group (consisting of Nippon Oil Exploration Co., Ltd., a subsidiary of Nippon Oil Exploration Co.) has constructed the world’s first associated gas recovery and utilization CDM. This project represents the first CDM anywhere in the world involving associated gas recovery and utilization. We conducted the entire process, from establishment of the methodology to creation of the project design document and application and approval by the CDM Executive Board. Actual implementation encountered a series of difficulties and involved much trial and error, as the international rules were in the development stage and unclarified. We were able to overcome these difficulties thanks to the support we received from the Vietnamese government and their strong expectations for the project. The project was highly regarded by the Vietnam government due to its significance in helping Vietnam improve its energy self-sufficiency. The local People’s Committee, which represents the community, also praised the project for its contribution to the lives of local residents. This project represents the first CDM anywhere in the world involving associated gas recovery and utilization. We conducted the entire process, from establishment of the methodology to creation of the project design document and application and approval by the CDM Executive Board. Actual implementation encountered a series of difficulties and involved much trial and error, as the international rules were in the development stage and unclarified. We were able to overcome these difficulties thanks to the support we received from the Vietnamese government and their strong expectations for the project. The project was highly regarded by the Vietnam government due to its significance in helping Vietnam improve its energy self-sufficiency. The local People’s Committee, which represents the community, also praised the project for its contribution to the lives of local residents.

Clean Development Mechanism (CDM) Project

World’s first methodology (international rules) established for associated gas recovery and utilization CDM

This project was registered as a CDM in February 2006. It is the world’s first CDM involving the recovery and effective utilization of associated gas and one of the world’s largest CO2 emission reduction CDM. Nippon Oil independently created, proposed and established the methodology (international rules) for this CDM. At present, these international rules are being utilized in CDMs around the world in reducing CO2 through the recovery and utilization of associated gas. In general, projects of this type that reduce CO2 through the effective utilization of energy are expected to deliver significant results in terms of helping to prevent global warming and have received acclaim for their contribution to the sustainable development of developing countries.

CDM projects involving CO2 emission reduction contribute to the sustainable development of developing countries

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Social contribution activities in Vietnam

The Nippon Oil Group is actively involved in social contribution activities in Vietnam.

- Muong Phang Elementary School (2002)
- Rehabilitation Center (2005)

We contributed funds for the construction of an elementary school in the village of Muong Phang, which is located in a mountainous region of northeastern Vietnam near the border with Laos. Every year employees from the Vietnam office of Japan Vietnam Petroleum visit the school, which requires a journey of over a day and a half each way. The company donates educational supplies and employees interact with the children.

Nippon Oil donated funds for construction of a rehabilitation center in the Gio Linh of Quang Tri Province (central Vietnam), which was the site of fierce fighting during the Vietnam War, to help children with physical disabilities. Training is conducted at the center under the direction of doctors and nurses to help many children overcome their disabilities.
Environmental Friendly New Energy

Meeting the Challenges of Realizing a Hydrogen-based Society

There are high expectations for hydrogen as a next-generation energy source. Nippon Oil provides research grants and is involved in a variety of other initiatives to help bring about a society powered by this new, environmentally friendly source of energy.

Creation of ENEOS Hydrogen Trust Fund to provide grants for basic research

Supporting efforts to pioneer the future of energy

Fostering technological innovation

Hydrogen has garnered attention for being a new clean source of energy capable of helping create a sustainable society. Nippon Oil has established the ENEOS Hydrogen Trust Fund with a view to expediting the realization of a hydrogen-based society. The fund provides grants for basic research related to the supply of hydrogen energy.

Established in March 2006, the fund will use a total of ¥1.5 billion in trust assets to pay out, in a stable manner, grants totaling ¥50 million a year over a period of around 30 years, for innovative and progressive basic research. This will serve to promote basic research directed toward progressive basic research. This will serve to promote basic research directed toward promoting the realization of a hydrogen-based society.

Supporting the future of energy-based society

In order to realize a hydrogen-based society, major technological innovations are needed in a number of areas: hydrogen production, hydrogen transportation and storage, and fixation of CO2 given off as a byproduct during hydrogen production. The fund will provide grants in these areas. Research topics are being publicly solicited.

Fiscal 2006 was the first year that funding was provided, and there was a total of 74 applications. The fund’s Management Committee, which is made up of nine academic experts representing Japan in the area of hydrogen research, conducted a rigorous, impartial assessment of the applications, and as a result of the process, selected for funding six research projects brimming with originality and innovativeness.

The fund is truly an example of our Group Philosophy, "Creating the energy of the future and promoting prosperity and harmony with nature," in action, and we intend to take a long-term view in continuing to fund research.

Significance of supporting research on hydrogen, the clean energy of the future

The major benefit of hydrogen is that when it is used as an energy source it gives off water, but not CO2, which is considered as one of the causes of global warming. In other words, it is a very environmentally friendly energy source. The ENEOS Hydrogen Trust Fund established by Nippon Oil was to research how to transfer clean energy from the future and funds research from a long-term perspective. There is currently a need for hydrogen research, so the significance of this fund cannot be overstated. The fund is not seeking short-term achievements, but rather funds research with a view to 10 or 20 years into the future. I think the fund deserves praise on this point as well.

In fiscal 2006 we had an extremely large response even though it was the first time applications had been solicited, and we were surprised at the extent of the response. I strongly sense the excitement surrounding hydrogen research in Japan. We expect the fund to continue to play a large role in bringing about a hydrogen-based society.

Successful development and commercialization of residential-use fuel cell systems

Many years of ENEOS R&D delivers major achievements

Nickel-hydrogen batteries, which are used in hybrid automobiles and other applications, are one example of hydrogen energy in practical application. Nippon Oil has successfully developed and commercialized the world’s first residential-use fuel cell systems. The systems use LPG and kerosene and incorporate polymer electrolyte fuel cells. They leverage technologies for manufacturing hydrogen from oil that Nippon Oil has cultivated over a number of years.

Fuel cell creates electricity by an electro-chemical reaction between oxygen and hydrogen. For this reason our residential-use fuel cell systems generate almost no nitrogen oxides or sulfur oxides and cut CO2 emissions by around 30-40% compared to conventional power generation. They are therefore environmentally friendly systems for supplying energy. We are currently working to popularize the two types of system for ordinary households, one that uses LPG and another that uses kerosene (both fuels are widely used in Japan).

Convenient, ecological fuel cell for electricity and hot water

Generate electricity from hydrogen and oxygen—just simply, this is what this fuel cell system does. As a fuel source, hydrogen has been beset with quite a number of problems with respect to efficiency, safety, etc., but Nippon Oil has succeeded in developing residential-use fuel cell systems by utilizing our hydrogen production technologies. Hydrogen is produced by putting LPG or kerosene through a process of desulfurization, reforming, and carbon monoxide removal, and the fuel cell generates electricity by using the hydrogen. The fuel cell systems can create both electricity and heat, so they are environmentally friendly and help cut energy costs. This process of delivering multiple forms of energy from a single energy source is called CHP (Combined Heat and Power), which has attracted attention for its high efficiency. How to create energy for the next generation is not only an issue faced by Nippon Oil, but by the whole of human society.

Filling fuel cell vehicles (FCVs) with hydrogen at a hydrogen station

Nippon Oil participates in the Japan Hydrogen & Fuel Cell Demonstration Project (JHFC) run by the Japanese government. As a part of this project we have established and begun operating the JHFC Yokohama-Ashai Hydrogen Station in Yokohama. This hydrogen station safely produces hydrogen from naphtha and supplies it to fuel cell vehicles being used in public road tests.
Fostering technological innovation

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Supporting the future of energy-based society

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**ENEOS Service Stations: Fulfilling Their Mission Even During Earthquakes**

**Service Stations as Bases for Earthquake Response**

ENEOS service stations supply petroleum products to emergency vehicles when earthquakes or other disasters occur, contributing to the safety and security of the local area.

Emergency generators in place for major earthquakes

Service stations capable of supplying fuel following earthquakes, even during power outages

Keeping emergency vehicles supplied with fuel

Japan is known for its many earth-quakes. Nobody knows precisely when or where the terror of an earthquake will strike. Major earthquakes, such as the Great Hanshin Awaji Earthquake of 1995, can cause enormous damage, destroying buildings, starting fires and stopping lifeline utilities.

Nippon Oil service stations work to ensure the supply of gasoline and diesel following earthquakes, even under such conditions as power outages. In such times gasoline and diesel required in the affected region would be supplied on a priority basis to emergency vehicles, such as police cars, Self-Defense Force vehicles, fire fighting vehicles and ambu-

- **Emergency generators in place for major earthquakes**
- **Service stations capable of supplying fuel following earthquakes, even during power outages**
- **Keeping emergency vehicles supplied with fuel**
- **Supplies of necessary relief provisions will be received from the city**
- **Agreement regarding disaster response signed with the city of Kawasaki**
- **Work to make our community safe and secure**
- **Highly safe service stations deliver peace of mind**

**Working to make our community safe and secure**

After reopening, we will provide petroleum products to emergency vehicles on a priority basis, and we will also help out as much as possible, by servicing or repairing vehicles out of operation due to damage from the earthquake, for example. As a member of the community, I believe we have a large role to play as a service station capable of supplying petroleum products in the time following earthquakes to ensure the safety and security of our community.

**Agreement regarding disaster response signed with the city of Kawasaki**

In January 2007, we signed an agreement with the city of Kawasaki regarding support for victims during disasters. Under the agreement, when a disaster occurs, we will open facilities at ENEOS Todoki Gourd in Kawasaki’s Naka-hara Ward to victims of the disaster as a temporary evacuation center and a large-scale “balloon shelter” for emergency assistance will be provided free of charge. Supplies of necessary relief provisions will be received from the city and assistance for victims will be provided rapidly through coordination between local government bodies and private companies.

**Highly safe service stations deliver peace of mind**

**Our mission is to supply energy stably**

**Earthquake- and fire-resistant structure to make service stations safe in major earthquakes**

Service stations handle dangerous substances and are therefore equipped with thorough safety measures in accordance with strict building standards established by the Fire Defense Law. The foundation above the underground tanks is covered with a thick layer of steel-reinforced concrete, and the buildings feature a fireproof structure.

When the Great Hanshin Awaji Earthquake struck it caused major damage in general. However, most service station facilities did not succumb to the shaking, but quickly reopened and were able to play a part in local recovery efforts. Initiatives to allow service stations to supply petroleum products even following such earthquakes are intended to make these highly safe service stations even more beneficial to local residents.

**Comprehensive measures to prevent disasters comparable to a major earthquake directly below Tokyo**

As well as working to make our affiliated service stations bases of operations following earthquakes, we have formulated general response measures that anticipate the occurrence of an earthquake directly under Tokyo. We have worked out specific preparatory and response measures divided into three phases: ordinary opera-

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Even During Earthquakes

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The service stations have been equipped with emergency generators and portable emergency pumps so gasoline or diesel can be supplied even when the fueling pumps stop working due to a power outage, for example. As of March 31, 2007, there are 152 of these Dr. Drive service stations in the Tokyo metropolitan area (which includes the city of Tokyo and the three surrounding prefectures). We plan to progressively expand the network across the entire country.

Dr. Drive service stations at the验证 as safe following the Great Hanshin Awaji Earthquake in January 1995 (Photo provided by Nisshin-shoji Co., Ltd.)

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After reopening, we will provide petroleum products to emergency vehicles on a priority basis, and we will also help out as much as possible by servicing or repairing vehicles out of operation due to damage from the earthquake, for example. As a member of the community, I believe we have a large role to play as a service station capable of supplying petroleum products in the time following earthquakes to ensure the safety and security of our community.

Conclusion

Working to make our community safe and secure

Dr. Drive service station, Kosugi is open 24 hours a day, so staff members are always on duty. This makes it possible for us to respond quickly no matter when an earthquake strikes. Immediately following an earthquake, we will confirm the safety of staff members using an emergency communication network and at the same time confirm the safety of service station facilities by inspecting the underground tanks, pipes and other equipment. We also take other measures as necessary, such as setting up emergency generators.

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Promoting CSR

Basic Approach

For the Nippon Oil Group, CSR consists of each and every executive and employee striving to sincerely practice the Nippon Oil Group Philosophy (Group Philosophy, Six Values We Respect, and Standards of Conduct) and contribute to society through our business operations. We consider CSR initiatives as a source of competitiveness and as a way of improving corporate value, and we develop them on a strategic basis.

CSR Promotion System and Plan-Do-Check-Act Cycle

Nippon Oil Group CSR Promotion System

Planning, Promoting and Executing CSR Activities

Six CSR Committees are in place under the CSR Meeting, which oversees CSR activities overall. These committees are responsible for driving CSR activities in six areas of focus, and we promote and reinforce activities on this basis.

CSR activities are carried out at Group companies and business offices based on themes discussed and decided on by the CSR Meeting and six CSR Committees.

Checking CSR Activities / Publishing Minutes

The CSR Meeting and six CSR Committees are convened to check on the progress of CSR activities and ongoing issues. Minutes from these meetings are published on the Group intranet. Disclosing proceedings to executives and employees in this way serves to raise the transparency of CSR management.

Internal Auditing by the CSR Department

The CSR Department was established in July 2004, reporting directly to the president, to serve as the secretariat to the CSR Meeting. The department has the requisite capabilities and staff to perform internal audits, and conducts operational audits from a CSR perspective.

Emphasized Themes and Main Initiatives of the Six CSR Committees

Six CSR Committees

- Compliance Committee
- Human Rights Committee
- Information Security Committee
- Corporate Citizenship Committee
- Environment & Safety Committee
- Quality Assurance Committee

FY2006 Themes

1. Confirming legal compliance of operations
2. Augmenting educational and training programs that promote awareness of fundamental legal issues

FY2007 Themes

1. Confirming legal compliance of operations
2. Conducting training on legal issues related to individual needs
3. Revealing the internal reporting system

Coverage: All executives and employees (including temporary employees and employees of temporary labor agencies)

Response rate: 91.7% (April 2007, Nippon Oil Group CSR Meeting)

The main questions and available responses were as follows:

Yes
Mostly Yes
Mostly No
No

Do you think you can explain the Nippon Oil Group Philosophy?
37% 37% 15%

Do you think you understand the policies of risk management in your organization?
50% 33% 13%

Do you feel that views may be freely expressed at your workplace?
6% 17% 25%

Do you know how to handle and resolve conflicts?
36% 33% 31%

Do you feel happy with your work at the Group?
6% 57% 32%

CSR Monitoring

Summary and Objectives

We conduct surveys to gauge the awareness of CSR and business ethics among executives and employees of the Nippon Oil Group. We have a fair and neutral independent research organization collect and analyze individual survey forms and opinions and maintain, which allows us to ascertain the true opinions and feelings of Group members.

The survey covers the extent to which our Group Philosophy has permeated the organization and the extent to which it is put into practice, as well as the state of communication at actual workplaces. The results are analyzed and used to help promote CSR. The survey itself also constitutes an e-learning training program on CSR and business ethics.

Analyzing the state of awareness by different attributes (affiliation, position, and years of service) helps in the promotion of discussions at individual organizations and workplaces and in the formulation and execution of specific improvement measures.

Results of the 2006 CSR Monitoring (Assessment & Issues)

We administered our second CSR Monitoring in November 2006. We maintained the same high level as last year with regard to trust in the company, employee motivation, and sense of participation (response rate of 88%), which are all basic elements of CSR. However, we identified problems with respect to permeation and practice of our Group Philosophy, awareness of the internal reporting system, and risk identification at the worksite level.

We have made it possible for each workplace to analyze and respond to issues by posting the results of the survey on the Group intranet.

Business Ethics Training

Case Method Training

We conduct training on business ethics designed to improve the ethical decision-making of each and every executive and employee. As of April 2007, some 4,630 executives and employees of the Nippon Oil Group have gone through this training.

We created an original training program with the help and cooperation of Associate Professor Joji Nakaya of the Community Service Department at the Graduate School, Tohoku University, and the CSR Promotion System and Plan-Do-Check-Act Cycle.

The program seeks to facilitate ethically proper decisions by having the people face with making decisions envision beforehand how individual day-to-day actions affect stakeholders.

The program centers on group discussions, so it also provides office members an opportunity to have frank conversations about these issues.

Training Program Results and Future Initiatives

People that have gone through the program have commented that they learned the importance of doing one’s job while being aware of stakeholders and how they keenly realized that forthright discussion in the workplace is essential to preserving the health of an organization. Others indicated that it would be desirable to hold regular ethics training sessions and conduct training in a cross-discipline, cross-office format. In response, we are planning to continue to conduct effective training programs in this area in fiscal 2007 and beyond.
Promoting CSR

Basic Approach

For the Nippon Oil Group, CSR consists of each and every executive and employee striving to sincerely practice the Nippon Oil Group Philosophy (Group Philosophy, Six Values We Respect, and Standards of Conduct) and contribute to society through our business operations. We consider CSR initiatives as a source of competitiveness and as a way of improving corporate value, and we develop them on a strategic basis.

CSR Promotion System and Plan-Do-Check-Act Cycle

- Planning, Promoting and Executing CSR Activities
- Six CSR Committees are in place under the CSR Meeting, which oversees CSR activities overall. These committees are responsible for driving CSR activities in six areas of focus, and we promote and reinforce activities on this basis.
- CSR activities are carried out at Group companies and business offices based on themes discussed and decided on by the CSR Meeting and six CSR Committees.

Checking CSR Activities / Publishing Minutes

The CSR Meeting and six CSR Committees are convened to check on the progress of CSR activities and ongoing issues. Minutes from these meetings are published on the Group intranet. Disclosing proceedings to executives and employees in this way serves to raise the transparency of CSR management.

Internal Auditing by the CSR Department

The CSR Department was established in July 2004, reporting directly to the president, to serve as the secretariat to the CSR Meeting. The department has the requisite capabilities and staff to perform internal audits, and conducts operational audits from a CSR perspective.

CSR Monitoring

- Summary and Objectives
- We conduct surveys to gauge the awareness of CSR and business ethics among executives and employees of the Nippon Oil Group. We have a fair and neutral independent research organization collect and analyze individual survey forms and anonymity is maintained, which allows us to ascertain the true opinions and feelings of Group members.
- The survey covers the extent to which our Group Philosophy has permeated the organization and the extent to which it is put into practice, as well as the state of communication at actual workplaces. The results are analyzed and used to help promote CSR. The survey itself is an e-learning training program on CSR and business ethics.
- Analyzing the state of awareness by different attributes (affiliation, position, and years of service) helps in the promotion of discussions at individual organizations and workplaces and in the formulation and execution of specific improvement measures.

- Results of the 2006 CSR Monitoring (Assessment & Issues)
- We administered our second CSR Monitoring in November 2006. We maintained the same high level as last year with regard to trust in the company, employee motivation, and sense of participation (response rate of 88%), which are all basic elements of CSR. However, we identified problems with respect to permeation and practice of our Group Philosophy, awareness of the internal reporting system, and risk identification at the worksite level.
- We have made it possible for each workplace to analyze and respond to issues by posting the details of the survey on the Group intranet.

Emphasized Themes and Main Initiatives of the Six CSR Committees

Six CSR Committees FY2006 Themes

Compliance Committee
- 1. Conferring legal compliance of operations
- 2. Augmenting educational and training programs that promote awareness of fundamental legal issues

Human Rights Committee
- 1. Promoting gender communication
- 2. Promoting healthy working styles

Information Security Committee
- 1. Promoting healthy working styles
- 2. Promoting communication and balance between work and private life

Corporate Citizenship Committee
- Social contribution activities following major disasters

Environment & Safety Committee
- 1. Developing environmental protection programs superior to those of other industries
- 2. Rebuilding safety and health practices

Quality Assurance Committee
- 1. Executing thorough measures to prevent complaints and problems related to quality assurance processes
- 2. Building quality assurance systems focused on items procured from outside

Six CSR Committees FY2007 Themes

Compliance Committee
- 1. Conferring legal compliance of operations
- 2. Conducting training on legal issues related to individual needs
- 3. Revitalizing the internal reporting system

Human Rights Committee
- Promoting healthy working styles
- Promoting communication and balance between work and private life

Information Security Committee
- Prevention of leaks of information on individuals and other confidential information

Corporate Citizenship Committee
- Develop ENDS science classes on a nationwide basis

Environment & Safety Committee
- 1. Making the Group even more environmentally progressive
- 2. Rebuilding safety and health practices

Quality Assurance Committee
- 1. Executing thorough measures to prevent complaints and problems related to quality assurance processes
- 2. Building quality assurance systems focused on items procured from outside
- 3. Increasing the quality of services provided

Business Ethics Training

- Training Program Results and Future Initiatives
- People that have gone through the program have commented that they learned the importance of doing one’s job while being aware of stakeholders and how they keenly realized that forthright discussion in the workplace is essential to preserving the health of an organization. Others indicated that it would be desirable to hold regular ethics training sessions and conduct training in a cross-division, cross-office format. In response, we are planning to continue to conduct effective training programs in this area in fiscal 2007 and beyond.
Social Responsibility

Corporate Governance

Basic Approach

The Nippon Oil Group's basic approach to corporate governance is to augment its efforts to ensure the transparency and soundness of management in order to respond to the trust and confidence of all its stakeholders.

Corporate Governance Units (Operational Execution, Control and Supervision)

1. At Nippon Oil, the Board of Directors supervises and controls the operational execution of the representative directors and each director as well as makes important management decisions. And directors must be approved by the general meeting of shareholders each year.

2. Decision-making on business execution, other than matters resolved by the Board of Directors, are made by the president. The Executive Committee, comprised of the president, executive vice presidents and senior vice presidents, serves as a consultation body to the president.

3. To promote rapid and responsive operational execution and clarify responsibilities, Nippon Oil has adopted a divisional system and an executive officer system.

4. To strengthen Group management, the presidents of principal Group companies are included as members of Nippon Oil's Board of Directors, and items necessary for the Group's strategic management are discussed for approval by Nippon Oil's Board of Directors. In addition, we have established a consultation body comprised of the representative directors and senior vice presidents of Nippon Oil and the presidents of other Group companies to promote the thorough implementation of fundamental strategies and facilitate exchanges of opinion.

5. The five corporate auditors, including the three outside auditors, offer opinions to the Board of Directors and also audit directors’ performance of their duties. In addition to attending important meetings, the corporate auditors receive reports on all items reported to Executive Committee. Furthermore, the corporate auditors regularly confer with the representative directors, exchange opinions with internal auditing units, and conduct interviews with directors and employees of Group companies. In addition, to comprehensively fulfill the auditing function, the Secretariat of Corporate Auditors has been established as a unit that is completely independent from operational execution units.

6. The CSR Department has been established as an internal auditing unit reporting directly to the president.

Building Internal Control Systems

As a part of its CSR management, the Nippon Oil Group has established systems for compliance, information storage and management, risk management, efficient operational execution, auditing systems, and other internal control systems. The Nippon Oil Board of Directors has established basic policies for building an internal control system. The Company is advancing with the rechecking and confirmation of the appropriateness of financial reporting and the effectiveness of all the Group’s internal control systems, and considering the overall state of internal control, including subsidiaries.

In the future, the Nippon Oil Group will continue responding to external and internal changes related to its operations and business environment by establishing additional internal control systems that feature still-greater effectiveness.

Initiatives for the Future

Based on the recognition that compliance should be prioritized in all business activities, and as a company that is trusted by stakeholders, we intend to continue to proactively ensure full compliance and prevent legal violations before they occur through a variety of initiatives, including our annual compliance checks.

Information Security-Related Initiatives

Basic Approach

By preventing the improper use, disclosure and leaks of company information, which is a corporate asset, and by protecting company information from improper internal and external access, we are able to maintain it in a safe and secure condition and ensure it is used appropriately when it is necessary for an authorized party.

In response to the implementation of the Personal Information Protection Law in April 2005, we enhanced our management system for company information in general, which included establishing the position of Chief Privacy Officer (CPO) at Nippon Oil to serve as the person responsible for the management of personal information and appointing information administrators in each division of the Nippon Oil Group. We also established the Confidential Information Handling Rules and Personal Information Protection Rules, which stipulate specific ways confidential information and personal data is to be handled, and created the Nippon Oil Group Privacy Policy, a policy related to the protection of personal information for the Group as a whole.

Main Initiatives in Fiscal 2006

In fiscal 2006 we augmented computer security using an ID card-based system and instituted a system for managing room access on the administrative floors of Nippon Oil’s head office. Additionally, we launched a system that checks emails for information leaks and otherwise carried out information security measures for the Group as a whole.

Initiatives for the Future

Just as in fiscal 2006 we intend to implement measures designed to prevent confidential information, including personal data, from being divulged. We will continue to strengthen computer security and conduct training to improve the awareness of every employee with respect to information management.
Corporate Governance

Basic Approach
The Nippon Oil Group’s basic approach to corporate governance is to augment its efforts to ensure the transparency and soundness of management in order to respond to the trust and confidence of all its stakeholders.

Corporate Governance Units (Operational Execution, Control and Supervision)
1. At Nippon Oil, the Board of Directors supervises and controls the operational execution of the representative directors and each director as well as makes important management decisions. And directors must be approved by the general meeting of shareholders each year.
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Based on the recognition that compliance should be prioritized in all business activities, and as a company that is trusted by stakeholders, we intend to continue to proactively ensure full compliance and prevent legal violations before they occur through a variety of initiatives, including our annual compliance checks.

Compliance

Basic Approach
The first item of the Nippon Oil Group Philosophy, “Six Values We Respect,” is “Ethics.” Our Standards of Conduct include concrete guidelines to promote rigorous legal compliance and high ethical standards on the part of all Group executives and employees. This item strongly calls for such compliance and ethical standards to be consistently implemented in all aspects of Group operations.

We have also established a Compliance Committee to help Group companies work together to strengthen compliance-related initiatives and carry out policies in a unified manner.

Themes identified for fiscal 2006 were to continue to confirm the status of compliance laws and regulations, including the Antimonopoly Law, and to augment educational and training programs that promote awareness of fundamental legal issues.

Main Initiatives in Fiscal 2006

- Legal Surveys and Compliance Performance Checks
Each year, the manager of each Nippon Oil Group department holds private interviews with each subordinate and otherwise performs checks of the department’s compliance performance to confirm that the relevant company’s operations and the behavior of the company’s officers and employees do not conflict with relevant laws and regulations. If a problem or questionable case is discovered, measures to rectify the situation are immediately taken. Before the checks, surveys of laws and regulations related to the company’s operations are performed, and other measures are taken to accumulate legal expertise enabling the prevention of legal compliance problems before they occur as well as the promotion of up-to-date, compliance-related knowledge among all the company’s officers and employees. The checks conducted in fiscal 2006 placed emphasis on compliance with the Antimonopoly Law and business consignment agreements and service contracts.

- Education and Training
We conduct education and training related to compliance and the law to make each and every employee fully aware of the fact that it is their individual duty to practice business ethics and compliance in everyday work activities.

- Internal Reporting System (Compliance Hot Line)
Nippon Oil Group employees (including contractors, temporary employees, and employees of temporary labor agencies) or employees of outsourcing companies or contractors doing work for the Group discover cases in which the Nippon Oil Group is not compliant with laws or regulations, they can report the situation through specialized in-house and external contact points that have been established to supplement the standard reporting system of reporting directly to one’s hierarchical superiors. Reports of noncompliance are immediately investigated to confirm facts, and if violations of laws or regulations are discovered, such problems will be promptly solved. Information reported in this way is stringently managed as confidential and is not provided or disclosed other than to protect the whistleblower and those involved in responding. Employees reporting illegal behavior will not suffer any work-related disadvantages due to their having made reports.

- Antimonopoly Law
We conduct education and training related to the Antimonopoly Law, and to augment educational and training programs that promote awareness of fundamental legal issues.

- Japanese Cartel Law
We conduct education and training related to the Japanese Cartel Law, and to augment educational and training programs that promote awareness of fundamental legal issues.

- Environmental Law
We conduct education and training related to the Environmental Law, and to augment educational and training programs that promote aware
Ensuring Safety

Basic Approach

We strive to ensure safe operations. In every process—from exploration and development to distribution and sales—we make every effort to prevent accidents and disasters before they occur and respond appropriately if such an event occurs. Nippon Petroleum Refining Co., Ltd. (NPRC) is working to create a culture in which workers give ultimate priority to safety. The company reviewed its overall safety management operations with a goal of eliminating labor accidents and injuries and in January 2006 established teams dedicated to promoting safety at its head office and refineries. Specifically, we are working to enhance safety activities and safety training not only for operation and construction units that manage actual work sites but also for employees of partner companies. In April 2006 NPRC established the Refinery Project Office to institute thorough measures designed to prevent accidents at refineries.

Disaster Prevention Equipment

At refineries, plants, storage terminals, oil depots and gas terminals, we are instituting measures to prepare for the event of an accident or disaster. These include setting up various disaster prevention facilities.

- **Countermeasures Against Oil Spills**
  Storage tanks are surrounded by multiple walls to prevent oil from flowing outside the site in the event of oil leaks from a tank. Offshore, there are oil fences in place and oil recovery vessels at the ready to respond rapidly should an oil spill occur.

- **Countermeasures Against Fire**
  In readiness for a major fire, we have in place large trucks equipped with elevated chemical cannons, foam transport vehicles, and foam cannons with exceptional fire fighting performance, as well as an array of large fire extinguishers and equipment for spraying extinguishing foam and water. For accidents and disasters that happen offshore, disaster-response vessels with fire fighting capability are kept at the ready.

- **Fire Fighting Skills Competitions**
  Employees actively participate in fire fighting skills competitions held by fire departments. The competitions help us maintain or improve our fire fighting abilities and help ensure a proper response in emergencies.

- **Observing Fire Fighting Exercises**
  Employees responsible for directing initial response efforts in the event of a disaster make trips to observe fire fighting exercises for industrial complexes at the Maritime Disaster Prevention Center to help ensure our initial response is precisely targeted and our fire fighting techniques are effective.

- **Mutual Assistance at Refineries and Other Sites**
  In readiness for a scenario in which a disaster occurs at a refinery or other site due to a major earthquake and controlling the situation proves exceedingly difficult to handle by a single site, we have established a system related to response operations and emergency measures so that organized assistance can be provided by other members of the Group. The system seeks to facilitate rapid response to disasters.

Main Initiatives in Fiscal 2006

- **Comprehensive Disaster Prevention Drills**
  To be ready for the event of an accident or disaster, we run comprehensive disaster prevention drills on a regular basis. The drills are led by an internal body established specifically for disaster prevention and are conducted to help ensure disaster prevention activities are prompt and precisely targeted. We also conduct a number of other training exercises, including joint disaster prevention drills with local fire departments and the disaster prevention units of nearby companies.

- **Communication Training**
  We regularly perform real-time simulation drills at our refineries, plants and storage terminals to ensure that, at the time of accidents or disasters, we will have the capabilities needed to provide news media and stakeholders with up-to-date information on continually changing situations regarding damage and countermeasures. The training simulates an accident, with employees playing the roles of members of the media, local residents and other related parties. The exercise includes handling inquiries over the phone and holding a press conference. Ultimately, it helps us identify problematic areas and make improvements. In fiscal 2006, communication training was held at the Osaka Refinery, Yoko- hama Refinery, Nippon Petrochemicals and Okinawa CTS Corporation and a total of 140 people participated.

Initiatives for the Future

In fiscal 2007, we will strive to strengthen a culture that puts ultimate priority on safety and eliminate labor accidents. Specific initiatives will be as follows:

- **Enhance safety activities aimed at preventative safety**
- **Enhance safety management training**
- **Enhance our system for providing safety-related instructions to partner companies**

We will establish priorities for each division—refineries and plants, storage terminals, oil depots, gas terminals, and distribution (tanker trucks, tanker ships, and regular trucks)—and work to faithfully carry them out.

Incidence of Labor Accidents

Data on labor accidents at the refineries are shown in the table below. In fiscal 2006, there was an increase in injuries that caused lost workdays, so frequency** and severity** both worsened.

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequency with lost workdays</th>
<th>Frequency without lost workdays</th>
<th>Severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2004</td>
<td>0.71</td>
<td>0.99</td>
<td>0.65</td>
</tr>
<tr>
<td>FY2005</td>
<td>0.85</td>
<td>1.12</td>
<td>0.88</td>
</tr>
<tr>
<td>FY2006</td>
<td>0.86</td>
<td>1.06</td>
<td>0.74</td>
</tr>
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**Frequency with lost workdays:** Number of labor accidents divided by the total number of hours worked, multiplied by 1,000

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**Severity** is the ratio of labor accidents for every one million hours worked.

**Notes:**
- The data excludes work accidents involving laborers engaged in industrial accidents.
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<tbody>
<tr>
<td>FY2004</td>
<td>0.008</td>
<td>0.002</td>
<td>0.005</td>
</tr>
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<tr>
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<td>1.00</td>
<td>1.00</td>
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<tr>
<td>FY2005</td>
<td>0.21</td>
<td>0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>FY2006</td>
<td>0.42</td>
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<td>0.08</td>
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Number of Labor Accidents (NPRC)

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<tr>
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<th>FY2005</th>
<th>FY2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Injury with lost workdays</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Injury without lost workdays</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>15</td>
</tr>
</tbody>
</table>

Ratios Indicating Frequency and Severity of Accidents (NPRC)

<table>
<thead>
<tr>
<th>FY2004</th>
<th>FY2005</th>
<th>FY2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>0.21</td>
<td>0.01</td>
</tr>
<tr>
<td>Severity</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Supplementary Information: Frequency and Severity Ratios

<table>
<thead>
<tr>
<th>All Industries</th>
<th>Chemical Industry</th>
<th>Petroleum Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>Severity</td>
<td>Frequency</td>
</tr>
<tr>
<td>FY2004</td>
<td>1.85</td>
<td>0.12</td>
</tr>
<tr>
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</table>

*1 This ratio indicates the frequency rate of lost work-time injuries and illnesses as a result of labor accidents for every one million hours worked.

*2 This ratio indicates the severity rate of labor accidents, defined as: 1.00 = no practical benefit and safety cannot be assured. To ensure safety and prepare for the worst, we conduct over 300 disaster prevention drills every year. Some of these training exercises are conducted by Kiire Oil Terminal alone, while others are run jointly with related organizations, like local government bodies, and local citizens.

We intend to strengthen collaboration with related organizations and local citizens and enhance our system for immediate response in the event of a disaster.

Initiatives for the Future

In fiscal 2007, we will strive to entrain a culture that puts ultimate priority on safety and eliminate labor accidents. Specific initiatives will be as follows.

1. Enhance safety activities aimed at preventative safety
2. Enhance safety management training
3. Enhance our system for providing safety-related instructions to partner companies

We will establish priorities for each division—refineries and plants, storage terminals, oil depots, gas terminals, and distribution (tanker trucks, tanker ships, and regular trucks)—and work to faithfully carry them out.
Crisis Management

Basic Approach

The basic approach to crisis management lies in preventative activities on a day-to-day basis. The Nippon Oil Group works to prevent accidents and incidents before they occur by developing operations manuals and conducting training and awareness-raising activities based on compliance. We also have a system in place that enables us to respond quickly and precisely in the event of an accident.

We established the Crisis & Emergency Response Rules in April 2001, and in the event of a disaster, accident, scandal or other situation with the potential to have a major impact on company management or our brand, we set up a countermeasures headquarters headed by the president or a person of equivalent responsibility and respond on the basis of the following:

1. Put ultimate priority on human life and environmental protection
2. Rapidly convey information and management information in an integrated manner
3. Promptly decide on, execute and follow up on the best course of action
4. Ensure smooth, transparent communication
5. Prevent recurrence

In addition, as part of our efforts to fulfill our social responsibilities as a supplier of petroleum products, we are involved in the following comprehensive disaster prevention measures that anticipate the occurrence of a major earthquake:

Comprehensive Disaster Prevention Measures

Aiming to be prepared in the case of a disaster comparable to a major earthquake directly below Tokyo, we are considering countermeasures for the following three phases:

1. Prior Preparations
   - We have instituted a system to confirm the safety of all employees and have stockpiled emergency supplies. We also run disaster response drills at refineries. Additionally, we are working to build a mutual assistance system for refineries and a transport and sales system for petroleum products during emergencies.

2. Response in the Immediate Aftermath
   - In the case of a disaster, we will immediately establish at head office. The headquarters will (1) confirm the safety or status of all employees and their families, (2) confirm the damage or integrity of the Nippon Oil Group’s business infrastructure, and (3) respond to emergency needs associated with the disaster response efforts of the central and local governments.

3. Response at Recovery Stages
   - A new recovery countermeasures headquarters will be established to (1) quickly establish product supply systems, (2) provide support for affected regions and communities, and (3) provide information to stakeholders.

Main Initiatives in Fiscal 2006

We designated the week from the end of August to the start of September as ENEOS Disaster Prevention Week. The disaster countermeasures headquarters at the Nippon Oil head office practiced initial response exercises and members of the headquarters practiced arriving on the scene on foot. Lectures on disaster prevention, awareness-raising activities and disaster response drills were also conducted for employees at our business sites.

Initiatives for the Future

To assist disaster-stricken communities and residents and to help facilitate a quick economic recovery, we intend to move forward with specific arrangements, together with related regional public bodies, for collaboration in the event of a major earthquake.

Quality Assurance

Basic Approach

It is essential that companies take a serious stance toward quality-related matters. Nippon Oil has established the following basic principles, which encapsulate our approach and stance toward ensuring quality assurance in supplying products and services to customers.

- **Quality Assurance Policy**
  - We will provide high-quality products and exceptional services to the satisfaction of each and every one of our customers.
  - We will take responsibility for developing products that are both safe and environmentally conscious, and we will provide products that can be used by customers with peace of mind.
  - We will provide appropriate, easy-to-understand information to customers, including information on the proper use of our products and warning labels.
  - We will promptly and faithfully respond to quality-related complaints, incidents and accidents, uncover their causes and strive to prevent their recurrence.
  - We will comply with all laws and regulations pertaining to quality assurance.

Under this policy, the Quality Assurance Department has responsibility for the unified supervision of quality assurance matters throughout the Group. Separate units have been established to take responsibility for quality assurance matters related to individual product categories, and these units have proven to be effective in managing quality assurance matters for each operational process (for each function) related to each product category. This system is used to ensure the quality of products produced in-house, and the same quality assurance system is used to ensure the quality of products purchased from other companies or obtained through barter transactions.

In fiscal 2006, following discussions by the Quality Assurance Committee, it was decided to emphasize the themes of (1) Establishing thorough measures to prevent complaints and problems related to quality assurance processes, (2) Building quality assurance systems focused on items procured from outsiders, and (3) Increasing the quality of services provided to customers. We carried out a variety of initiatives to execute these priorities.

Initiatives for the Future

To more fully carry out the emphasized themes established for fiscal 2006, we plan to position them as priorities in fiscal 2007 as well and continue to make progress.

1. Executing thorough measures to prevent complaints and problems related to quality assurance processes
   - Review ENEOS quality management system
2. Building quality assurance systems focused on items procured from outside
   - Enhance communications with suppliers
3. Increasing the quality of services provided from the customer’s perspective
   - Increase the quality of service/customer service at service stations

“Call ENEOS” Customer Consultation Service

Nippon Oil lists to the valuable feedback of our customers via our customer consultation service.

<table>
<thead>
<tr>
<th>Quality Assurance System</th>
<th>Quality Assurance Units for Individual Product Groups</th>
<th>Quality Management Units for Individual Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fuel Cells Cogeneration, etc</td>
<td>Development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Research</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Production</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transportation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marketing</td>
</tr>
</tbody>
</table>

Respondents to Accidents and Problems (FY2006)

We reported 12 incidents during fiscal 2006. We would like to offer our sincere apologies for these incidents and assure the public we are doing our utmost to prevent any recurrence. Two examples of these incidents and our responses are described below:

**August 2006**

At Nippon Oil’s Muroran Refinery, there was an incident involving a floating cover made a naphtha tank sinking down into the oil. We immediately reported the incident to the fire department, and following the instructions of the authorities we carefully and safely removed the naphtha from inside the tank and successfully prevented the incident from escalating into a fire or other disaster. No one was injured in this incident and no oil leaked out into the ocean.

**December 2006**

It was discovered that diesel containing regular gasoline was sold for a period of approximately three weeks at an ENEOS service station in Tokyo.

The fact was publicly disclosed on our website and signs at our service stations. We apologized and explained the incident to customers. The fuel was replaced free of charge to customers at their request. The cause was concluded to be an error occurring during the process work, so we implemented measures to prevent recurrence of the incident that included instructing all partner construction companies to enhance these work procedures, more fully monitor worksites, and more effectively manage inventory from before and after refueling work.

Main Initiatives in Fiscal 2006

- Activities for the fiscal year were planned for each product category and business site, and then executed.

Specific Examples

<table>
<thead>
<tr>
<th>Emphasized Theme</th>
<th>Example Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preventing complaints and problems</td>
<td>Progress made in standing work in each process</td>
</tr>
<tr>
<td>Building quality assurance systems focused on items procured from outside</td>
<td>System of assurance responsibilities clarified</td>
</tr>
<tr>
<td>Increasing the quality of services provided</td>
<td>Monitoring of service stations</td>
</tr>
<tr>
<td>Providing feedback from customers</td>
<td>Conducted customer satisfaction survey</td>
</tr>
</tbody>
</table>

We check on the progress of these activities through meetings, audits and other means and work to promptly carry out improvement initiatives.

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Crisis Management

Basic Approach

The basic approach to crisis management lies in preventative activities on a day-to-day basis. The Nippon Oil Group works to prevent accidents and incidents before they occur by developing operations manuals and conducting training and awareness-raising activities based on compliance. We also have a system in place that enables us to respond quickly and precisely in the event of an accident.

We established the Crisis & Emergency Response Rules in April 2001, and in the event of a disaster, accident, scandal or other situation with the potential to have a major impact on company management or our brand, we set up a countermeasures headquarters headed by the president or a person of equivalent responsibility and respond on the basis of the following.

1. Putultimate priority on human life and environmental protection
2. Rapidly convey information and management information in an integrated manner
3. Promptly decide on course of action
4. Ensure smooth, transparent communication
5. Prevent recurrence

In addition, as part of our efforts to fulfill our social responsibilities as a supplier of petroleum products, we are involved in the following comprehensive disaster prevention measures that anticipate the occurrence of a major earthquake.

Comprehensive Disaster Prevention Measures

Aiming to be prepared in the case of a disaster comparable to a major earthquake directly below Tokyo, we are considering countermeasures for the following three phases.

1. Prior Preparations
   - We have instituted a system to confirm the safety of all employees and have stockpiled emergency supplies. We also run disaster response drills at refineries. Additionally, we are working to build a mutual assistance system for refineries and a transport and sales system for petroleum products during emergencies.

2. Response in the Immediate Aftermath
   - In the case of an expected major earthquake of level six or greater on the Japanese seismic measurement scale, a countermeasures headquarters led by Nippon Oil’s president will immediately be established at head office. The headquarters will (1) confirm the safety or status of all employees and their families, (2) confirm the damage or integrity of the Nippon Oil Group’s business infrastructure, and (3) respond to emergency needs associated with the disaster response efforts of the central and local governments.

3. Response at Recovery Stages
   - A new recovery countermeasures headquarters will be established to (1) quickly establish product supply systems, (2) provide support for affected regions and communities, and (3) provide information to stakeholders.

Main Initiatives in Fiscal 2006

We designated the week from the end of August to the start of September as ENEOS Disaster Prevention Week. The disaster countermeasures headquarters at the Nippon Oil’s head office practiced initial response exercises and members of the headquarters practiced arriving on the scene on foot. Lectures on disaster prevention, awareness-raising activities and disaster response drills were also conducted for employees at our business sites.

Initiatives for the Future

To assist disaster-stricken communities and residents and to help facilitate a quick economic recovery, we intend to move forward with specific arrangements, together with related regional public bodies, for collaboration in the event of a major earthquake.

Responsives to Accidents and Problems (FY2006)

We reported 12 incidents during fiscal 2006. We would like to offer our sincere apologies for these incidents and assure the public we are doing our utmost to prevent any reoccurrence. Two examples of these incidents and our response are described below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Nature of Accident</th>
<th>Corporate Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2006</td>
<td>An investigative committee was established at the Muroran Retrify. The causes of the incident were investigated and appropriate measures were established to prevent its recurrence. We surmised that light gas was mixed with the naphtha in the tank and the gas was then released, which caused a fire in the tank and led to its burst. This fire spread to adjacent buildings. The incident led to the suspension of the Muroran Refinery’s production for approximately 33 hours, which increased Nippon Oil’s costs by approximately 6.34 billion yen. By finding ways to reduce the risk of such an incident, we attempted to improve the quality of products we provide.</td>
<td></td>
</tr>
<tr>
<td>December 2006</td>
<td>It was discovered that diesel containing regular gasoline was sold for a period of approximately three weeks at an ENEOS service station in Tokyo. The cause of the incident was found to be a technical failure in the filling system that led to the incorrect filling of the tank. We immediately stopped the filling of the tank and removed the remaining diesel containing regular gasoline. The cause of the incident was concluded to be an error made during refurbishment work, so we implemented measures to prevent future incidents. We also instructed all partner construction companies to enhance work procedures, more fully monitor work sites, and more effectively manage inventory from before and after refurbishment work.</td>
<td></td>
</tr>
</tbody>
</table>

Quality Assurance

Basic Approach

It is essential that companies take a serious stance toward quality-related matters. Nippon Oil has established the following basic principles to align our approach and stance toward quality assurance in supplying products and services to customers.

- **Quality Assurance Policy**
  - We will provide high-quality products and exceptional services to the satisfaction of each and every one of our customers.
  - In every process, from design to sales, we will ascertain the level of performance and safety that is required by the market and carry out business while always considering the customer’s perspective.
  - We will pursue customer satisfaction and strive to constantly maintain and improve the quality of our products and services.
  - We will take responsibility for developing products that are both safe and environmentally conscious, and we will provide products that are easy to use by customers with a wide variety of needs.
  - We will provide appropriate, easy-to-understand information to customers, including information on the proper use of our products and warning labels.
  - We will promptly and faithfully respond to quality-related complaints, incidents and accidents, uncover their causes and strive to prevent their recurrence.
  - We will comply with all laws and regulations pertaining to quality assurance.

Under this policy, the Quality Assurance Department has responsibility for the unified supervision of quality assurance matters throughout the Group. Separate units have been established to take responsibility for quality assurance matters related to individual product categories, and these units have proven to be effective in managing quality assurance matters for each operational process (for each function) related to each product category. This system is used to ensure the quality of products introduced in-house, and the same quality assurance system is used to ensure the quality of products purchased from outside suppliers or companies obtained through barter transactions.

- **Quality Assurance System**
  - We will provide appropriate, easy-to-understand information to customers, including information on the proper use of our products and warning labels.
  - We will promptly and faithfully respond to quality-related complaints, incidents and accidents, uncover their causes and strive to prevent their recurrence.

Initiatives for the Future

To more fully carry out the emphasized themes established for fiscal 2006, we plan to position them as priorities in fiscal 2007 as well and continue to make progress.

1. Executing thorough measures to prevent complaints and problems related to quality assurance processes
   - Reinforce ENEOS quality management system
   - Building quality assurance systems focused on items procured from outside suppliers

2. Increasing the quality of services provided
   - Enhance communications with suppliers
   - Increase the quality of services provided from the customer’s perspective
   - Increase the quality of service (customer satisfaction)

We receive around 50,000 comments (fiscal 2006 total) from customers per year and work to respond promptly. The thoughts and opinions provided by customers are shared with all executives and employees and utilized in improvement initiatives.

Main Initiatives in Fiscal 2006

Activities for the fiscal year were planned for each product category and business site, and then executed.

- **Quality Assurance Policy**
  - We will provide high-quality products and exceptional services to the satisfaction of each and every one of our customers.
  - In every process, from design to sales, we will ascertain the level of performance and safety that is required by the market and carry out business while always considering the customer’s perspective.
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  - We will provide appropriate, easy-to-understand information to customers, including information on the proper use of our products and warning labels.
  - We will promptly and faithfully respond to quality-related complaints, incidents and accidents, uncover their causes and strive to prevent their recurrence.
  - We will comply with all laws and regulations pertaining to quality assurance.

Initiatives for the Future

To more fully carry out the emphasized themes established for fiscal 2006, we plan to position them as priorities in fiscal 2007 as well and continue to make progress.

1. Executing thorough measures to prevent complaints and problems related to quality assurance processes
   - Reinforce ENEOS quality management system
   - Building quality assurance systems focused on items procured from outside suppliers

2. Increasing the quality of services provided
   - Enhance communications with suppliers
   - Increase the quality of services provided from the customer’s perspective
   - Increase the quality of service (customer satisfaction)

“Call ENEOS” Customer Consultation Service

Nippon Oil listens to the valuable feedback of our customers via our customer consultation service.

Call ENEOS Customer Consultation Service

19 CSR Report 2007

20 Call Report 2007

We will provide high-quality products and exceptional services to the satisfaction of each and every one of our customers.
Environmental Harmony

Environmental Management

Basic Approach

The Nippon Oil Group has made Environmental Harmony an integral part of Group Philosophy. We have built environmental management systems and are carrying out environmental management on the basis of the following environmental policies.

1. In accordance with the Nippon Oil Group Environmental Vision, we will strive to achieve a sustained decrease in the environmental impact of the Group’s operations in each business field.
2. To effectively reduce environmental impact, we will set and revise environmental goals and targets at regular intervals.
3. In accordance with the Nippon Oil Group CSR Policy, we will strive to ensure rigorous compliance with all environment-related laws and regulations.

In addition, we have established the Environment & Safety Committee to strengthen Groupwide environmental and safety initiatives. (See pp. 17–18 for information on our safety initiatives.)

Expanding the Scope of ISO 14001 Certification

Since April, 1996, when the Nippon Oil Group obtained ISO 14001—a system that is internationally recognized as best practice for environmental management systems—we have proceeded to introduce ISO 14001 throughout the Nippon Oil Group. Currently, such certification has been obtained for 48 facilities of 16 Nippon Oil Group companies, and plans call for progressively obtaining certification for the remaining uncertified Group companies.

Environmental Education

To promote environmental harmony as a company, we feel it is important to raise the environmental awareness of each and every employee, so we are currently working to enhance our environment-related educational programs. Along with offering e-learning-based environmental education programs and distributing an environmental magazine via e-mail, we also recommend that employees take the Eco Test*.

Support for Introduction of Environmental Management Systems at Dealerships and Sales Companies

To support the environmental protection activities of its dealerships and sales companies, since fiscal 2005, Nippon Oil has been running courses on ISO 14001 certification for representatives of dealerships and sales companies wishing to obtain the certification. In fiscal 2006, three dealerships that had taken the course obtained certification and as of the present five others are working for certification before the end of fiscal 2007.

Medium-Term Environmental Management Plan

Principal Objectives and Achievements under the Medium-Term Environmental Management Plan

The Nippon Oil Group has established the Medium-Term Environmental Management Plan (fiscal 2005 to fiscal 2007) to implement in tandem with its Third Medium-Term Consolidated Management Plan. The goal of the plan is making steady progress toward reducing greenhouse gases and the overall environmental impact of our operations.

Assessments – (C) Objective achieved (D) Objective partly achieved (O) Objective not achieved

<table>
<thead>
<tr>
<th>Principal Theme</th>
<th>Objectives</th>
<th>FY2005 Achievements and Assessments</th>
<th>FY2007 Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand the scope of ISO 14001 certification</td>
<td>All Nippon Oil Branches and the head offices of eight Group companies* acquired certification.</td>
<td>Complete certification for the head offices of 18 Group companies.</td>
<td></td>
</tr>
<tr>
<td>Environmental friendliness products and services, and develop and promote new energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental friendliness products and services (pp. 9, 16, 30)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activities to reduce environmental impact (pp. 7, 8, 21–30)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Global warming prevention measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce specific energy consumption at refineries</td>
<td>Reduced 17.5% compared with FY1996 level.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Verification for issuance of certified emission reductions for the Rang Dong oil field</td>
<td>Conducted verification.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conduct countermeasures based on surveys and prevailing conditions.</td>
<td>Continue to reduce by an average of 0.5% per year (targeted to reduce 3% from FY1996 level by FY2007).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Soil contamination surveys and countermeasures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conducted surveys of operating properties belonging to the Nippon Oil Group and conducted countermeasures.</td>
<td>Conducted surveys of all properties belonging to the Nippon Oil Group (1,117 properties) surveyed, countermeasures for 60 properties.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conduct countermeasures based on surveys and prevailing conditions.</td>
<td>Continue to develop the technology and no verification.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Measures to reduce waste</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieve zero emissions at NPRC refineries</td>
<td>Promote initiatives to achieve a waste disposal rate of less than 0.5% for the Nippon Oil Group.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieve zero emissions at NPRC refineries and non-NPRC refineries</td>
<td>Promote initiatives to achieve a waste disposal rate of less than 0.5% for the Nippon Oil Group.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce electric power consumption by 14% (paper consumption by 35%, and waste volume disposed to zero)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce electric power consumption by 5% (paper consumption by 20%, and waste volume disposed to zero)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Green procurement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase green procurement rate 10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Environmental contribution activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations to the National Land Afforestation Promotion Organization</td>
<td>Cumulative donations reached approximately ¥23 million.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative donations reached approximately ¥20 million.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


For more information on our safety initiatives, please refer to the Safety section on page 17.
Environmental Harmony

Environmental Management

Basic Approach

The Nippon Oil Group has made Environmental Harmony an integral part of Group Philosophy. We have built environmental management systems and are carrying out environmental management on the basis of the following environmental policies.

1. In accordance with the Nippon Oil Group Environmental Vision, we will strive to achieve a sustained decrease in the environmental impact of the Group’s operations in each business field.
2. To effectively reduce environmental impact, we will set and revise environmental goals and targets at regular intervals.
3. In accordance with the Nippon Oil Group CSR Policy, we will strive to ensure rigorous compliance with all environment-related laws and regulations.

In addition, we have established the Environment & Safety Committee to strengthen Groupwide environmental and safety initiatives. (See pp. 17, 18 for information on our safety initiatives.)

Expanding the Scope of ISO 14001 Certification

Since April 1996, when the Nagashima Refinery became the first petroleum industry facility in Japan to obtain the ISO 14001 certification—an internationally recognized standard for environmental management systems—we have proceeded to introduce ISO 14001 throughout the Nippon Oil Group. Currently, such certification has been obtained for 48 facilities of 16 Nippon Oil Group companies, and plans call for progressively obtaining certification for the remaining uncertified Group companies.

Environmental Education

To promote environmental harmony as a company, we feel it is important to raise the environmental awareness of all employees, so we are currently working to enhance our environment-related educational programs. Along with offering e-learning-based environmental education programs and distributing an environmental magazine via e-mail, we also recommend that employees take the Eco Test*.

Support for Implementation of Environmental Management Systems at Dealerships and Sales Companies

To support the environmental protection activities of its dealerships and sales companies, since fiscal 2005, Nippon Oil has been running training courses on ISO 14001 certification for representatives of dealerships and sales companies wishing to obtain the certification. In fiscal 2006 three dealerships that had taken the course obtained certification and as of the present five others are working for certification before the end of fiscal 2007.

We obtained ISO 14001 certification by utilizing the Nippon Oil certification course.

Kimio Nakazawa
Vice President
Nippon Oil & Energy Corporation

We were considering obtaining ISO 14001 certification, due in part to a request from some business partners, when we learned of Nippon Oil’s certification course, and ended up attending 12 sessions of the course from October 2005 to April 2006. Nippon Oil provided broad ranging support—from the basics of ISO 14001 certification procedures—and thanks to the course we succeeded in obtaining certification in August 2006. While we had difficulty raising awareness and raising awareness of related laws and regulations within the company, I feel the course helped raise the awareness of employees with respect to compliance and the environment, and enhanced the vitality of our organization. Giving forward, we plan to make maximum use of our environmental management system in day-to-day activities.

Environmental related activities

- Improve green purchasing ratio
- Green purchasing ratio increased by 8% *

More environmentally friendly products and services, and development of populaire new energy

- Sales of residential-use kerosene-powered fuel systems (installed 769 units)
- Completed surveys of operating properties (283 properties surveyed; countermeasures for 60)
- Improve paper consumption by 22%, and waste volume by 17%: Objective partially achieved
## Supply Chain Environmental Impact

### Exploration & Development

<table>
<thead>
<tr>
<th>Activity</th>
<th>FY2005</th>
<th>FY2006</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Exploration (Malaysia) Limited</td>
<td>*5 Data from Japan Vietnam Petroleum Co., Ltd. and Nippon Oil Exploration Limited</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Refining & Production

<table>
<thead>
<tr>
<th>Activity</th>
<th>FY2005</th>
<th>FY2006</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seawater</td>
<td>171</td>
<td>59</td>
<td>-112</td>
</tr>
<tr>
<td>Dust</td>
<td>59</td>
<td>0.2</td>
<td>-58.8</td>
</tr>
<tr>
<td>*2 Actual figures revised</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Transportation & Storage

<table>
<thead>
<tr>
<th>Activity</th>
<th>FY2005</th>
<th>FY2006</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>147</td>
<td>146</td>
<td>-1</td>
</tr>
<tr>
<td>Electricity</td>
<td>1,323</td>
<td>1,321</td>
<td>-2</td>
</tr>
<tr>
<td>Seawater</td>
<td>120</td>
<td>114</td>
<td>-6</td>
</tr>
</tbody>
</table>

### Distribution & Sales

<table>
<thead>
<tr>
<th>Activity</th>
<th>FY2005</th>
<th>FY2006</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>5,061</td>
<td>4,093</td>
<td>-968</td>
</tr>
<tr>
<td>Electricity</td>
<td>532</td>
<td>346</td>
<td>-186</td>
</tr>
</tbody>
</table>

### Additional Notes

- The Niigata Office was added to the scope of the data in fiscal 2006.
- The Nippon Oil Corporation was added to the scope of the data in fiscal 2006.
- CO2 emissions are calculated based on version 1.2 of the Ministry of the Environment’s manual dealing with calculating greenhouse gas emissions by businesses. This includes methane and dinitrogen monoxide.

*4 The Niigata Office was added to the scope of the data in fiscal 2006.

*5 Data from Japan Vietnam Petroleum Co., Ltd. and Nippon Oil Exploration Limited

*6 The data compilation method has been changed in conjunction with amendments to the Act Concerning the Rational Use of Energy (Energy Conservation Act) and the Rational Use of Energy (Energy Conservation Act).

*7 Added to scope of data in fiscal 2006
Supply Chain Environmental Impact
Environmental Efficiency and Environmental Accounting

Integrated Evaluation of Environmental Impact

We comprehensively evaluate environmental initiatives along the entire supply chain and tie these initiatives to environmental impact reductions.

Our total environmental impact* in fiscal 2006 was substantially lower than in fiscal 2005.

The Group's activities to reduce environmental impact resulted not only in lowering total environmental impact, but also in improving environmental efficiency, which is a measure of the relationship between production volume and environmental impact.

Environmental efficiency, which is a measure of the relationship between production volume and environmental impact, is lower than in fiscal 2005.

Although environmental investment dropped by ¥10.1 billion compared to fiscal 2005 due to investment in energy-saving facilities running its course, environmental expenses increased by ¥22.8 billion owing to an increase in costs for soil contamination surveys and countermeasures.

Outline of Environmental Accounting

The Nippon Oil Group has utilized environmental accounting as a tool for evaluating the effectiveness of environmental management, since implementing it in fiscal 1990.

In fiscal 2006, the Group made a total of ¥7.1 billion in environmental investments, which included energy-saving facilities, equipment for preventing pollution, and facilities for reducing sulfur content in gasoline. Total environmental expenses, comparing running costs for environmental facilities, waste treatment costs and the cost of other environmental activities, amounted to ¥155 billion.

Main Initiatives in Fiscal 2006

Initiatives at the Refining Stage

Over 80% of the Nippon Oil Group’s greenhouse gas emissions are generated at the refining stage. Because of this, at our refineries we are working to reduce specific energy consumption by 20% compared to fiscal 1990 levels by fiscal 2010—an average of 1% per year. This goal exceeds the 1% target set by the Petroleum Association of Japan (PAJ).*

In fiscal 2006, we achieved a reduction of 17.3% against the fiscal 1990 benchmark, which already exceeds the PAJ target.

Initiatives for the Future

We plan to strengthen energy efficiency initiatives with a view to helping prevent global warming. These include waste heat recovery and efficient operations at the refining and production stages. At the product consumption stage, we intend to start trial sales of a biogasoline formulated with bioETBE in April 2007 in the Tokyo metropolitan area. We will also strive to develop and facilitate increased use of products that are especially beneficial in reducing CO2 emissions, including biodiesel and other biomass fuels, and fuel cells.

Global Warming Prevention Measures

Basic Approach

The Nippon Oil Group is constantly considering environmental impact along the entire supply chain. We work to reduce greenhouse gas emissions through improving environmental efficiency at the stage of our core refining and production operations, reducing fuel consumption while transporting products, and providing products such as sulfur-free automotive fuel. In addition, utilizing Kyoto Mechanisms, we also actively strive to help prevent global warming in other countries.

Initiatives at the Distribution Stage

At the distribution stage of the supply chain, the Nippon Oil Group strives to reduce fuel consumption by improving distribution efficiency through optimizing transport routes, consolidating storage terminals and converting to large tankers and tanker trucks, as well as by ensuring all drivers turn off their engines while stopped.

Fuel consumption in fiscal 2006 was 211,000, a 10% reduction from fiscal 1990. We have thus already achieved the PAJ target of a 9% reduction by fiscal 2010.

Initiatives Utilizing Kyoto Mechanisms

The Nippon Oil Group promotes projects to reduce CO2, which include a Clean Development Mechanism at Vietnam’s Rang Dong Oil field associated gas recovery and utilization project (see p. 7 for details).

Nippon Oil helps developing countries reduce their CO2 emissions by participating in the World Bank Community Development Carbon Fund (CDCF) and the Japan GHG Reduction Fund (JGRRF).

Sulfur-Free Automotive Fuels

Nippon Oil developed sulfur-free automotive fuels in anticipation of environmental regulations, and in January 2005 we were worldwide pioneers in supplying sulfur-free regular gasoline and sulfur-free diesel fuel. If vehicles capable of running on sulfur-free fuels increase in popularity in accordance with the Japan OLAN Air Program report, beginning in fiscal 2010 it is estimated that these sulfur-free fuels will reduce CO2 emissions by around 12 million tons per year thanks to the improved fuel economy of both gasoline and diesel cars running on them and reduced fuel consumption at refineries.

* CO2 emissions from the fuel consumption of the Nippon Oil Group's truck fleets, as well as by ensuring all drivers turn off their engines while stopped.

1. Environmental accounting is conducted in accordance with the CO2 Reduction Guidelines for Energy Consumption in Industrial Facilities (Japan Management Association).
Integrated Evaluation of Environmental Impact

We comprehensively evaluate environmental initiatives along the entire supply chain and tie these initiatives to environmental impact reductions. Our total environmental impact* in fiscal 2006 was substantially lower than in fiscal 2005.

The Group’s activities to reduce environmental impact resulted not only in lowering total environmental impact, but also in improving environmental efficiency, which is a measure of the relationship between production volume and environmental impact.

The environmental impact of various environmentally harmful substances (CO₂, SOx, NOx, dust, etc.) are integrated using the US-echromatic technique (UTC), which was developed by the National Institute of Advanced Industrial Science and Technology.

Although environmental investment dropped by ¥10.1 billion compared to fiscal 2005 due to investment in energy-saving facilities running its course, environmental expenses increased by ¥2.8 billion owing to an increase in costs for soil contamination surveys and countermeasures.

Environmental Efficiency and Environmental Accounting

The Nippon Oil Group has utilized environmental accounting as a tool for evaluating the effectiveness of environmental management. We are implementing environmental accounting in fiscal 1990. In fiscal 2006, the Group made a total of ¥7.1 billion in environmental investments, which included energy-saving facilities, equipment for preventing pollution, and facilities for reducing sulfur content in gasoline. Total environmental expenses, comprising running costs for environmental facilities, waste treatment costs and the cost of other environmental activities, amounted to ¥155 billion.

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Main Initiatives in Fiscal 2006

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* The data shown in this report refer to only 1.5% of all major refineries in operation in Japan in fiscal 2005.

Global Warming Prevention Measures

Basic Approach

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Environmental Accounting for FY2006

Environmental Accounting

The Nippon Oil Group has utilized environmental accounting as a tool for evaluating the effectiveness of environmental management. We are implementing environmental accounting in fiscal 1990. In fiscal 2006, the Group made a total of ¥7.1 billion in environmental investments, which included energy-saving facilities, equipment for preventing pollution, and facilities for reducing sulfur content in gasoline. Other environmental expenses increased by ¥2.8 billion owing to an increase in costs for soil contamination surveys and countermeasures.

Major Category | Sub-category | FY2005 | FY2006 |
--- | --- | --- | --- |
Environmental Accounting for Oil Refineries | Environmental efficiency | 109.1% | 111.1% |
| Environmental management | 121.0% | 117.3% |
| Environmental surveys and countermeasures for soil contamination | 114.0% | 112.4% |
| Environmental measures for products | 106.2% | 112.1% |
| Environmental measures for energy consumption | 121.0% | 117.3% |
| Environmental measures for pollution | 108.1% | 111.1% |

Environmental Accounting for Distribution Stage

- Specific Energy Consumption and Energy Consumption at Oil Refineries

Energy consumption has increased since fiscal 1990 due to increases in crude oil processed, greater operation of cracking units and related facilities associated with changes in the demand structure, the addition of processes to reduce the sulfur content of products, and other factors. But, thanks to promoting energy conservation measures, our specific energy consumption and specific CO₂ emissions have improved.

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Surveys and Countermeasures for Soil Contamination

Basic Approach

The Nippon Oil Group systematically conducts surveys of all sites with potential for direct soil or groundwater contamination. Moreover, we quickly implement appropriate countermeasures at any contaminated sites discovered by our surveys.

Main Initiatives in Fiscal 2006

By the end of fiscal 2006, the Nippon Oil Group had completed a cumulative total of approximately 3,000 soil and contamination surveys throughout the Group. The following table shows the results of surveys and corresponding countermeasures.

<table>
<thead>
<tr>
<th>Category</th>
<th>Locations</th>
<th>Survey results</th>
<th>Countermeasures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service stations</td>
<td>1,081</td>
<td>645</td>
<td>33</td>
</tr>
<tr>
<td>Oil depots</td>
<td>19</td>
<td>75</td>
<td>4</td>
</tr>
<tr>
<td>Other business sites</td>
<td>87</td>
<td>177</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>1,177</td>
<td>895</td>
<td>36</td>
</tr>
</tbody>
</table>

Surveyed sites that did not meet the environmental standards were reported to local governments, and the Group implemented countermeasures as necessary as shown in the following table.

Initiatives for the Future

The Nippon Oil Group has established its own original Service Station Soil Contamination Risk Assessment Method. The Group created the method based on know-how garnered from approximately 3,000 surveys and follow up countermeasures on sites of the Nippon Oil Group as well the development of remediation technology. The assessment method will now also be applied for soil surveys and countermeasures conducted throughout the network of approximately 6,000 service stations of dealerships and sales companies.

The Nippon Oil Group has taken various other steps to actively support the soil contamination countermeasures of this service station network during the fiscal year. As of February 2007, Nippon Oil has set up help desks for inquiries about soil contamination at all its branches. In addition, we began acting as an agent for insurance covering clean up and third-party damage compensation expenses to protect service stations should by some chance contamination occur.

Research and Development into Low-Cost Soil Remediation Technologies

In October 2005, Nippon Oil created a specialized team in its Central Technical Research Laboratory to focus on the development of soil remediation technologies that are inexpensive and entail low levels of environmental impact. Moreover, in collaboration with NIPPO CORPORATION, Nippon Oil is developing low-cost soil and groundwater contamination remediation technologies that do not require excavation. Based on pilot testing conducted at idle land sites of the Nippon Oil Group, Nippon Oil began using the technology in practice for remediation projects at three sites in fiscal 2006.

Waste Reduction Measures

Basic Approach

Through the ENEOZ Zero Emissions program, the Nippon Oil Group aims to reduce waste volume disposed through its proper management and by recycling, with the goal of achieving a recycling-based society.

Main Initiatives in Fiscal 2006

NPCCI, a Nippon Oil Group company that generates significant waste because of its refinery operations, achieved aggregate zero emissions across all its refineries in fiscal 2005. In fiscal 2006, it restructured its efforts on reducing waste volume disposed, achieving the Group’s defined zero emissions level at the level of each individual refinery, and also decreasing the waste disposal ratio to 0.3%.

The Nippon Oil Group as a whole also achieved zero emissions in fiscal 2006, reaching a goal originally set for fiscal 2010 well ahead of time.

*NPCCI’s Waste Volume Disposed and Waste Disposal Ratio in FY2006

Initiatives for the Future

The Nippon Oil Group has implemented thorough measures to recycle sludge, collected particulates, and other waste generated in substantial volumes by its refineries. For the future, the Group is targeting further reduction in the waste volume disposed through a new waste reduction goal “Zero Emissions Plus.” The Group will pursue the new goal through increased separation of waste and the development of new disposal methods. We will also spread efforts to reduce waste in offices throughout the Group as a whole.

*NPCCI’s Zero Emissions Plus: Waste volume disposed < 0.3%
Surveys and Countermeasures for Soil Contamination

Basic Approach

The Nippon Oil Group systematically conducts surveys* of all sites with potential for direct soil or groundwater contamination. Moreover, we quickly implement appropriate countermeasures at any contaminated sites discovered by our surveys.

*In fiscal 2006, the Nippon Oil Group determined in-house guidelines for the survey and remediation of soil contamination to be conducted by contractors and subcontractors, and launched the Nippon Oil Soil Contamination Countermeasures Guidelines. The guidelines outline the methods for determining whether there is any concern, a boring sample is taken to determine whether there is any contamination.

Main Initiatives in Fiscal 2006

By the end of fiscal 2006, the Nippon Oil Group had completed a cumulative total of approximately 3,000 soil and contamination surveys throughout the Group. The following table shows the results of surveys and corresponding countermeasures.

### Results of Surveys and Countermeasures in FY2006

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>Expenses (yen)</th>
<th>Number</th>
<th>Expenses (yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service stations</td>
<td>1,061</td>
<td>649</td>
<td>93</td>
<td>1,708</td>
</tr>
<tr>
<td>Oil depots</td>
<td>39</td>
<td>75</td>
<td>4</td>
<td>1,001</td>
</tr>
<tr>
<td>Retailers</td>
<td>11</td>
<td>2,481</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>1,177</td>
<td>895</td>
<td>43</td>
<td>3,802</td>
</tr>
</tbody>
</table>

Surveyed sites that did not meet the environmental standards were reported to local governments, and the Group implemented countermeasures as necessary as shown in the following table.

### Sites Reported to Local Government Authorities in FY2006

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>Expenses (yen)</th>
<th>Percentage</th>
<th>Countermeasures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service stations</td>
<td>16</td>
<td>96</td>
<td>100%</td>
<td>Completed</td>
</tr>
<tr>
<td>Oil depots</td>
<td>150</td>
<td>11,550</td>
<td>100%</td>
<td>Completed</td>
</tr>
<tr>
<td>Retailers</td>
<td>12</td>
<td>841</td>
<td>100%</td>
<td>Completed</td>
</tr>
<tr>
<td>Total</td>
<td>183</td>
<td>12,451</td>
<td>100%</td>
<td>Completed</td>
</tr>
</tbody>
</table>

At operating service stations, we measure the concentration of petroleum-based hydrocarbon gas in the soil to monitor any possibility of soil contamination. If there is some concern, a boring sample is taken to determine whether there is any contamination.

Research and Development into Low-Cost Soil Remediation Technologies

In October 2005, Nippon Oil created a specialized team in its Central Technical Research Laboratory to focus on the development of soil remediation technologies that are insensitive and entail low levels of environmental impact. Moreover, in collaboration with NIPPO CORPORATION, Nippon Oil is developing low-cost soil and groundwater remediation technologies that do not require excavation. Based on pilot testing conducted at idle land sites of the Nippon Oil Group, Nippon Oil began using the technology in practice for remediation projects at three sites in fiscal 2006.

Initiatives for the Future

The Nippon Oil Group has established its own original Service Station Soil Contamination Risk Assessment Method. The Group created the method based on know-how garnered from approximately 3,000 surveys and follow up countermeasures on sites of the Nippon Oil Group as well the development of remediation technology. The assessment method will now also be applied for soil surveys and countermeasures conducted throughout the network of approximately 8,000 service stations of dealerships and sales companies.

Nippon Oil took various other steps to actively support the soil contamination countermeasures of this service station network during the fiscal year. As of February 2007, Nippon Oil has set up help desks for inquiries about soil contamination at all its branches. In addition, we began acting as an agent for insurance covering clean up and third-party damage compensation expenses to protect service stations should by some chance contamination occur.

Waste Reduction Measures

Basic Approach

Through the ENEOS Zero Emissions program*, the Nippon Oil Group aims to reduce waste volume disposed through its proper management and by recycling, with the goal of achieving a recycling-based society.

The Group regularly performs audits of the companies that it commissions to handle waste disposal work and strives to lower the risk of illegal disposal activities and other problematic behavior by commissioned waste disposal companies.

Main Initiatives in Fiscal 2006

NPRC, a Nippon Oil Group company that generates significant waste because of its refinery operations, achieved aggregate zero emissions across all its refineries in fiscal 2005. In fiscal 2006, it refocused its efforts on reducing waste volume disposed, achieving the Group’s defined zero emissions level at the level of each individual refinery, and also decreasing the waste disposal ratio to 0.3%.

The Nippon Oil Group as a whole also achieved zero emissions in fiscal 2006, reaching a goal originally set for fiscal 2010 well ahead of time.

Initiatives for the Future

The Nippon Oil Group has implemented thorough measures to recycle sludge, collected particulates, and other waste generated in substantial volumes by its refineries. For the future, the Group is targeting further reduction in the waste volume disposed through a new waste reduction goal “Zero Emissions Plus.” The Group will pursue the new goal through increased separation of waste and the development of new disposal methods.

We will also spread efforts to reduce waste in offices throughout the Group as a whole.

*Nippon Oil Group’s “zero emissions”:

Waste volume disposed

Waste disposal ratio (%) < 0.5%
Further Environmental Initiatives

Exploration and Development Stage

Nippon Oil Exploration Limited (NDIEL) is engaged in oil and natural gas exploration and development projects in Japan and 10 other countries. Besides rigorously complying with all relevant environmental laws and regulations in those countries, NOEL evaluates the environmental impact of each stage of its operations with regard to local land and marine ecosystems as well as climate conditions. Based on this evaluation, it drafts an environmental management plan and implements that plan.

Among the highlights of fiscal 2006, two of the Nippon Oil Group’s overseas subsidiaries gained new environmental certifications. The Vietnam Office of Japan Vietnam Petroleum Co., Ltd. and the Miri Office of Nippon Oil Exploration (Malaysia), Limited, obtained ISO 14001 environmental management standard certification during the fiscal year.

Transportation Stage

Strengthening Marine Pollution Prevention Measures

The International Convention for the Prevention of Pollution from Ships (MARPOL) of the International Maritime Organization (IMO) has introduced measures to prevent pollution of the oceans due to oil spills and has prohibited the dumping of waste at sea. In addition to its full commitment to complying with the accord, the Nippon Oil Group is working to further reduce the burden it places on the environment. For example, the Group voluntarily ceased the still-permitted practice of disposing of incinerated ash in the ocean, instead returning the ash to land for disposal.

Preventing Ecological Deterioration due to Ballast Water

As a safety measure, oil tankers traveling with empty crude oil cargo tanks from Japan to oil exporting countries carry ballast water (seawater) in segregated ballast tanks, and this ballast water contains plankton and other oceanic microorganisms, which are then carried far from their origins. In consideration of maintaining the balance in the marine ecosystems of oil exporting countries, Nippon Oil Group tankers comply with requests by oil terminal authorities and conduct relevant ballast-replacement pumping in the open ocean.

Consumption Stage

Environmentally Friendly Premium Gasoline “ENEOS NEW VIGO”

ENEOS NEW VIGO is sulfur-free and can improve fuel economy by up to 3% or acceleration by up to 5%. In addition to these advantages, the product utilizes original Nippon Oil technology to incorporate a high-performance detergent that provides the most advanced engine-cleaning performance available in Japan. As a result, it can reduce regulated emission gases (CO, HC, NOx) by as much as 10% to 30%.

In recognition of our achievements in the production, marketing, and development of related technology of ENEOS NEW VIGO and other sulfur-free gasoline, Nippon Oil received the 2006 Environment Minister’s Award for Activities that Help Prevent Global Warming (Technology Development and Product Commercialization Sectors).

Recosul (Modified Sulfur Concrete)

Nippon Oil has developed a new type of construction material that can be substituted for concrete. Called Recosul, it is produced from sulfur recovered in the process of desulfurizing petroleum products mixed with byproducts from other industries including such materials as steel slag and coal ash. Recosul is drawing considerable attention as an environmentally friendly new material because it provides superior strength, impermeability to water and high levels of acid resistance while recycling byproducts from other industries. Nippon Oil is proceeding with development of applications, especially use in underground sewage systems or in river conduits. In December 2005, a section construction material made of Recosul was used at a construction site in Aomori Prefecture. The Hokkaido government also took steps to promote modified sulfur concrete use in its prefecture, approving it as a “Hokkaido Recycled product” and a “Hokkaido Recycled Brand.”

Biomass Fuel Activities

Biomass is drawing considerable attention as an environmentally friendly new material because it provides superior strength, impermeability to water and high levels of acid resistance while recycling byproducts from other industries. Nippon Oil is proceeding with development of applications, especially use in underground sewage systems or in river conduits. In December 2005, a section construction material made of Recosul was used at a construction site in Aomori Prefecture. The Hokkaido government also took steps to promote modified sulfur concrete use in its prefecture, approving it as a “Hokkaido Recycled product” and a “Hokkaido Recycled Brand.”

Biomass fuel is manufactured from naturally produced plant matter. Because the plants absorb CO2 during the growing process, biomass has been recognized under the Kyoto Protocol as not emitting CO2 even if when disposed of by incineration. Therefore, biomass is being spotlighted as one measure for dealing with global warming. From the point of view of stability of supply and economics as a energy source, there are still many issues to be addressed. Nippon Oil is contributing to that process through the following activities.

Biodiesel

Since 2005, Nippon Oil and Toyota Motor Corporation have been jointly developing a processing technology for hydrogenation of oil produced from biomass to achieve a second-generation biodiesel fuel. Toyota and Hino Motor Co., Ltd., are confirming that bio hydrided diesel (BHD) test manufactured by Nippon Oil starting in fiscal 2007 demonstrated superior environmental attributes in their automobiles. In collaboration with the Tokyo Metropolitan Government, the development group intends to hold a demonstration with city buses to publicize the effectiveness of BHD as a measure against global warming. At the same time, Nippon Oil is considering a domestic supply system for BHD.
Further Environmental Initiatives

Exploration and Development Stage

Nippon Oil Exploration Limited (NOEX) is engaged in oil and natural gas exploration and development projects in Japan and 10 other countries. Besides rigorously complying with all relevant environmental laws and regulations in those countries, NOEX evaluates the environmental impact of each stage of its operations with regard to local land and marine ecosystems as well as climate conditions. Based on this evaluation, it drafts an environmental management plan and implements that plan. Among the highlights of fiscal 2006, two of the Nippon Oil Group’s overseas subsidiaries gained new environmental certifications. The Vietnam Office of Japan Vietnam Petroleum Co., Ltd. and the Miri Office of Nippon Oil Exploration (Malaysia). Ltd. obtained ISO 14001 environmental management standard certification during the fiscal year.

Transportation Stage

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Refining and Production Stage

Air Pollution Countermeasures

The Nippon Oil Group takes the countermeasures described below to reduce air pollutants (SOx, NOx, dust). We comply rigorously with the Air Pollution Control Law and local government ordinances.

<table>
<thead>
<tr>
<th>Air pollutants</th>
<th>Countermeasures</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOx</td>
<td>*1. Air pollution countermeasures</td>
</tr>
<tr>
<td>NOx</td>
<td>1. Low-NOx boiler equipment</td>
</tr>
<tr>
<td>Dust</td>
<td>2. Electro precipitator</td>
</tr>
</tbody>
</table>

Sulfur and Nitrogen Emission Volumes*2

<table>
<thead>
<tr>
<th>Year</th>
<th>SOx</th>
<th>NOx</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>5,430</td>
<td>4,583</td>
</tr>
<tr>
<td>2001</td>
<td>5,824</td>
<td>4,910</td>
</tr>
<tr>
<td>2002</td>
<td>6,218</td>
<td>5,141</td>
</tr>
<tr>
<td>2003</td>
<td>6,612</td>
<td>5,463</td>
</tr>
<tr>
<td>2004</td>
<td>6,058</td>
<td>4,691</td>
</tr>
<tr>
<td>2005</td>
<td>6,138</td>
<td>4,486</td>
</tr>
</tbody>
</table>

● Reducing Emissions of Volatile Organic Compounds

The Japanese government’s policy for reducing emissions of volatile organic compounds (VOCs) sets the target of reducing total emissions volume from factories and other stationary sources to 30% below the fiscal 2000 level by fiscal 2010. In fiscal 2005, the Petroleum Association of Japan autonomously set the goal of reducing total emissions volume to 30% below the fiscal 2000 level, and Nippon Oil is actively taking steps toward this goal through measures for storage tanks and loading facilities.

SNP’s Emission Volumes of Benzene, Toluene, and Xylene

<table>
<thead>
<tr>
<th>Year</th>
<th>Benzene</th>
<th>Toluene</th>
<th>Xylene</th>
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<tbody>
<tr>
<td>2000</td>
<td>78.4</td>
<td>80.9</td>
<td>85.6</td>
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<td>2001</td>
<td>58.1</td>
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<tr>
<td>2004</td>
<td>53.2</td>
<td>57.9</td>
<td>60.2</td>
</tr>
<tr>
<td>2005</td>
<td>51.3</td>
<td>56.4</td>
<td>59.3</td>
</tr>
</tbody>
</table>

Consumption Stage

● Environmentally Friendly Premium Gasoline “ENEOS NEW VIGO”

ENEOS NEW VIGO is sulfur-free and can improve fuel economy by up to 3% or acceleration by up to 5%. In addition to these advantages, the product utilizes original Nippon Oil technology to incorporate a high-performance detergent that provides the most advanced engine-cleaning performance available in Japan. As a result, it can reduce regulated emission gases (CO, HC, NOx) by as much as 10% to 30%.

In recognition of our achievements in the production, marketing, and development of related technology of ENEOS NEW VIGO and other sulfur-free gasoline, Nippon Oil received the 2005 Environment Minister’s Award for Activities that Help Prevent Global Warming (Technology Development and Product Commercialization Section).

Biomass Activities

Biomass fuel is manufactured from naturally produced plant matter. Because the plants absorb CO2 during the growing process, biomass has been recognized under the Kyoto Protocol as not emitting CO2 even if when disposed of by incineration. Therefore, biomass is being spotlighted as one measure for dealing with global warming. From the point of view of stability of supply and economics as an energy source, there are still many issues to be addressed. Nippon Oil is contributing to that process through the following activities.

● Biofuel

To attain the targets set under the Kyoto Protocol (Gobinet Decision of April 28, 2005), the Petroleum Association of Japan is taking proactive action to achieve the use of biomass fuel for transportation as set out in the Kyoto Protocol. The industry is targeting introducing bioethanol, in the form of ETBE, in an amount equivalent to 20 percent of the gasoline demand (approximately 360,000 m3 per year, a crude oil equivalent of 210,000 bbl) per year by fiscal 2010. The use of bioethanol is expected to produce a 603 thousand metric ton reduction per year in CO2 emissions. Nippon Oil began test sales of bioethanol formulated with ETBE at some service stations in the Tokyo metropolitan area in April 2007.

● Biodiesel

Since 2005, Nippon Oil and Toyota Motor Corporation have been jointly developing a processing technology for hydrogenation of oil produced from biomass to achieve a second-generation biodiesel fuel. Toyota and Hino Motor Co., Ltd., are continuing to bi hydrogenated diesel (BHD) test manufactured by Nippon Oil starting in fiscal 2007 demonstrated superior environmental attributes in their automobiles. In collaboration with the Tokyo Metropolitan Government, the development group intends to hold a demonstration with city buses to publicize the effectiveness of BHD as a measure against global warming. At the same time, Nippon Oil is considering a domestic supply system for BHD.

Recouls (Modified Sulfur Concrete)

Nippon Oil has developed a new type of construction material that can be substituted for concrete. Called Recouls, it is produced from sulfur recovered in the processes of desulfurizing petroleum products mixed with byproducts from other industries including such materials as steel slag and coal ash. Recoul is drawing considerable attention as an environmentally friendly new material because it provides superior strength, impermeability to water and high levels of acid resistance while recycling byproducts from other industries. Nippon Oil is proceeding with development of applications, especially use in underground sewage systems or in river conduits. In December 2006, Nippon Oil construction material made of Recouls was used at a construction site in Aomori Prefecture. The Hokkaido government also took steps to promote modified sulfur concrete use in its prefecture, approving it as a “Hokkaido Recycled product” and a “Hokkaido Recycled Brand.”
Social Contributions

Basic Approach

Guided by its basic policy for social contribution activities, the Nippon Oil Group actively pursues a range of related activities. The Group’s organization for these activities has been strengthened in recent years with the establishment of the Community Engagement Office in April 2005, followed by the set up of a Corporate Citizenship Committee in June 2005. To further expand the social contribution activities of the overall Group, the Corporate Citizenship Committee considers the creation of new programs and addresses issues arising from ongoing programs. To encourage the free exchange of opinions, the meetings of the committee are open to all employees and anyone can participate as an observer. As a result, there is an active progression of proposals being made by participants other than the committee members.

The emphasized theme of fiscal 2006 was “Social Contribution Activities in Times of Major Natural Disasters.” Discussions of the disaster theme revolved around the operation of service stations after earthquakes and a disaster response cooperative agreement between Nippon Oil and the city of Kawasaki. (See p. 12)

Main Initiatives in Fiscal 2006

Environmental and Energy Conservation Activities

Tokyo Greenship Action

This environmental protection program assists with the preservation of the precious, unsoultied natural environment remaining in the city of Tokyo. It is sponsored by the Tokyo Metropolitan Government, private-sector corporations, non-profit organizations (NPOs), and other groups. Nippon Oil has been participating in the program since fiscal 2004, and has been taking part along with its employees and their families in the revival and preservation of idle rice paddies using traditional cultivation methods. The project is taking place in Machida under the guidance of the Machida Rekikan-Kumiai. There were six activities conducted for the project during fiscal 2006, participated in by a total of 163 people.

ENEOS Forests and Environmental Volunteer Leaders’ Training Programs

Forests play a variety of roles in preserving the environment, absorbing CO₂ and maintaining the planet’s biodiversity. However, to fulfill these functions, it is essential that forests receive care on a continuous basis. For that purpose, the Nippon Oil Group has an ongoing forest preservation program participated in by its employees and families targeted primarily on the vicinity of Group affiliates nationwide. Called “ENEOS Forests,” the program conducted 7 events during fiscal 2006, participated in by a total of 510 people. Among other activities, volunteers thinned the trees, cleared undergrowth, pruned branches, and created walking paths.

Nippon Oil also conducts Environmental Volunteer Leaders’ Training programs to nurture human resources for its environmental volunteer activities. The Company runs its training programs for employees at Kiyosato Highlands in Yamanshi Prefecture. In fiscal 2006, Nippon Oil held 5 sessions, training a total of 88 people.

Activities Contributing to the Community

ENEOS Soccer School

Since 1976, members of the soccer team at NPRO’s Misurima Refinery have acted as instructors at a soccer school held for local elementary school children in grades 4 to 6. The school does not limit its teaching to soccer skills but also seeks to develop a blend of cooperation and self-reliance in the children. Over a period of 30 years, the soccer school has touched the lives of many local children.

The soccer school has become a feature in the interaction between the refinery and the community. Some graduates of the soccer school have even ended up working at the refinery and in turn becoming soccer instructors to the next generation of children.

ENEOS Children’s Science Classes

These science classes aim to get children, the guardians of our future, interested in science as well as to deepen their understanding of petroleum. The science classes have been held 16 times at the Central Technical Research Laboratory since January 2005, with approximately 700 elementary school children participating.

The classes are designed to surprise and excite the children. To get the children individually involved in the experiments, the young Nippon Oil research staff acting as teachers are continually coming up with inventive techniques.

The program is well received by the children, who regularly make such comments as “I like science,” “Now I’m interested in physics,” and “I realized that ENEOS is really thinking about the environment.”

Activities to Support Sports

NPO Yokohama BayStars Sports Community

Aiming to promote progress in baseball and general sports culture within Kanagawa Prefecture, Nippon Oil is collaborating as a partner with the Yokohama BayStars Sports Community, an NPO established by the Yokohama BayStars professional baseball team.

Since fiscal 2006, the NPO has organized baseball classes for elementary and middle schools and training programs for instructors. Current and former members of the ENEOS Baseball Team provide support for the NPO’s programs by acting as instructors.

In fiscal 2006, the NPO held 32 baseball classes, 3 instructors training programs, and 5 sports events. Approximately 5,500 school children participated in these events.

Initiatives for the Future

In fiscal 2007, we will be looking to develop new social contribution activities suggested by the Corporate Citizenship Committee and other sections of the Nippon Oil Group into concrete programs.

In particular, we plan to further expand the ENEOS Children’s Science Classes and develop a system to support volunteer activities of individual employees. In addition, as part of our international social contribution activities, we intend to increase our educational support program in Vietnam (see p. 8).

<International Exchange Activities>

The Nippon Oil Group annually accepts trainees from abroad and dispatches oil-related specialists to assist with programs overseas. These personnel exchanges help strengthen our relationships with organizations and communities in foreign countries.

Wide-ranging experiences over a three-week training period.

Feedback from a trainee

Sandra Wu (Trainee from Taiwan)

I was lucky to experience so many things during my three-week training program at the Nippon Oil Group. I rode a fuel cell-powered car at the Central Technical Research Laboratory and took an etymology-training lesson at the Marketing Training Center to learn how speech was “the key to good service.” At a refinery, I not only got to observe the production process, but also took a ride on a tank truck. I also worked as a secretary in an office. My stay was short, but the experience was very valuable.

Through my experiences, I came to understand well how the Nippon Oil Group is not just focused on profits, but gives top priority to CSR activities and is actively involved in dealing with environmental issues, quality control, social contributions, and many others.

There were so many things to learn, and it was a very packed but fulfilling three weeks.
Social Contributions

Basic Approach
Guided by its basic policy for social contribution activities, the Nippon Oil Group actively pursues a range of related activities. The Group’s organization for these activities has been strengthened in recent years with the establishment of the Community Engagement Office in April 2005, followed by the set up of a Corporate Citizenship Committee in June 2005.

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Main Initiatives in Fiscal 2006

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3. **Nippon Oil and the Tokyo Greenship Action**
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   - The soccer school has become a fixture in the interaction between the refinery and the community. Some graduates of the soccer school have even ended up working at the refinery and in turn becoming soccer instructors to the next generation of children.

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Feedback from a trainer Sandra Wu
(Trainee from Taiwan)

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Initiatives for the Future

In fiscal 2007, we will be looking to develop new social contribution activities suggested by the Corporate Citizenship Committee and other sections of the Nippon Oil Group into concrete programs.

In particular, we plan to further expand the ENEOS Children’s Science Classes and develop a system to support volunteer activities of individual employees. In addition, as part of our international social contribution activities, we intend to increase our educational support program in Vietnam (see p. 8).
Respect for Human Rights and Dignity

Basic Approach

The Nippon Oil Group aims to foster a corporate culture respectful of human rights that enables employees—the driving force behind our corporate strength—to work energetically and demonstrate their individuality and capabilities. To that end, the Group emphasizes measures to promote employee capabilities, support women’s success, encourage greater awareness of human rights issues, and support the physically challenged.

Nippon Oil’s efforts in this area are organized around the Human Rights Committees, which considers human rights in the context of various themes, such as the personnel system, promoting better understanding of human rights, and human resource development. The results of its deliberations are passed on to Nippon Oil, NPRC, and other Group companies to be reflected in their personnel strategies.

Main Initiatives in Fiscal 2006

Health Management

Nippon Oil believes that for employees to be able to work energetically, a sound body and mind are extremely important. At Nippon Oil, almost 100% of employees have a periodic health checkup. In addition, various creative programs, such as “Prevention of lifestyle diseases” and a “Telephone health consultation” are used to manage the mental and physical health of employees.

Among these efforts, Nippon Oil has made “Measures for Mental Health” an important theme. In fiscal 2005, Nippon Oil established organizational support systems for this purpose, including a self-care system for employees and a unit-care system providing support by managers and supervisors.

In addition, Nippon Oil set up advisory services inside and outside the company.

In fiscal 2006, Nippon Oil carried out mental health training programs companywide. Based on the thinking that to reduce stress in the workplace, it is important to develop smooth communication, the focus of these programs was on how to communicate well with each other.

In future, Nippon Oil will endeavor to promote mental health using the following system.

1. Mental Health Promotion System

- Stress check
- Provide information (Self-management)
  - Ten-hour telephone hotline
  - Information flowing in the workplace

2. Introduction of Discretionary Work System

Nippon Oil and NPRC have increased the degree of choice in working conditions to meet the diversifying needs of their employees.

In April 2003, Nippon Oil introduced a specialist discretionary work system at the Central Technical Research Laboratory for such employees. As with the introduction of the flex-time, short-working hours, child-rearing and nursing care systems, the introduction of discretionary work systems has made it possible for Nippon Oil to better accommodate the diversified needs of its employees.

3. Supporting Women’s Success

Aiming to help develop and effectively utilize human resources, in April 2004 Nippon Oil and NPRC eliminated the administrative assistant job category that encompassed the majority of female employees and merged this category with the general administration job category. As a result, many female employees will be able to enjoy more challenging jobs and a broader scope for using their work capabilities.

4. Helping Nurture the Next Generation

Based on the Law for Promoting Policies to Nurture the Next Generation, Nippon Oil and NPRC have created their first action plan to support employees at work and home.

First Action Plan Results

- April 1, 2005 through March 31, 2007

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Results</th>
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<tr>
<td>Reducing the average period of paid vacation time</td>
<td>- Reducing the average holiday pay for employees who actually take paid vacation time</td>
</tr>
<tr>
<td>Promoting actual use of paid vacation time</td>
<td>- Promoted actual use of paid vacation time</td>
</tr>
<tr>
<td>Encouraging extended child-rearing leave of absence</td>
<td>- Encouraged extended child-rearing leave of absence</td>
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<tr>
<td>Promoting child-rearing and nursing care</td>
<td>- Promoted child-rearing and nursing care</td>
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<tr>
<td>Establishing organizational support system for child rearing</td>
<td>- Established organizational support system for child rearing</td>
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<td>Promoting organizational support system for childrearing care of dependents</td>
<td>- Promoted organizational support system for childrearing care of dependents</td>
</tr>
<tr>
<td>Developing children’s educational institutions</td>
<td>- Developed children’s educational institutions</td>
</tr>
</tbody>
</table>

Initiatives for the Future

We are continuing to work on the themes of fiscal 2006. Based on these efforts, we are initiating measures to achieve better communication in the workplace and a well-balanced working life for our employees.

Using the child-rearing leave of absence system I experienced being a house husband!

Koji Matsumoto
Chief Group
Specialty Nonwoven
Business Dept.
NISSEKI PLASTO Co., Ltd.

When I discovered I was to be the father to twins, I decided to make use of the leave of absence system for child rearing because of conditions at home. Because it was the first time in my company that a man had taken a leave of absence for child rearing, I was worried that it would cause problems for my customers and my colleagues. However my boss and fellow workers encouraged me by saying “We’ll back you up, don’t worry about it, go ahead and get the babies started in life.”

The next 40 days of my leave of absence were spent doing so many things I wasn’t accustomed to, like taking care of my eldest son, who is in kindergarten, changing diapers, and vacuuming and doing the laundry. My period as a house husband was over in a flash but I spent most of it thinking about how hard it was to raise babies. Now the babies are past the difficult period, and I am completely back to work.

Beginning with the child rearing system, my company offers a variety of systems to support the different ways of working and lifestyles of each of its employees. This support is very reassuring for the employees, I am certain that my valuable experience of being a house husband will serve me well for the rest of my life.
Respect for Human Rights and Dignity

Basic Approach

The Nippon Oil Group aims to foster a corporate culture respectful of human rights that enables employees—the driving force behind our corporate strength—to work energetically and demonstrate their individuality and capabilities. To that end, the Group emphasizes measures to promote employee capabilities, support women's success, encourage greater awareness of human rights issues, and support the physically challenged. Nippon Oil's efforts in this area are organized around the Human Rights Committee, which considers human rights in the context of various themes, such as the personnel system, promoting better understanding of human rights, and human resource development. The results of its deliberations are passed on to Nippon Oil, NPRE, and other Group companies to be reflected in their personnel strategies.

Main Initiatives in Fiscal 2006

Health Management

Nippon Oil believes that for employees to be able to work energetically, a sound body and mind are extremely important. At Nippon Oil, almost 100% of employees have a periodic health checkup. In addition, various creative programs, such as "Prevention of lifestyle diseases" and a "Telephone health consultation" are used to manage the mental and physical health of employees.

Among these efforts, Nippon Oil has made "Measures for Mental Health" an important theme. In fiscal 2005, Nippon Oil established organizational support systems for this purpose, including a self-care system for employees and a unit-care system providing support by managers and supervisors. In addition, Nippon Oil set up advisory services inside and outside the Company. In fiscal 2006, Nippon Oil carried out mental health training programs companywide. Based on the thinking that to reduce stress in the workplace, it is important to develop smooth personal interaction, the focus of these programs was on how to communicate well with each other. In the future, Nippon Oil will endeavor to promote mental health using the following system.

Mental Health Promotion System

- Resolution in the workplace
- Mental health strategies for employees working long hours
- Manager and superiors training
- Self-care and unit-care
- In-house advisory service
- Intranet, e-mail magazine, pamphlets
- Regular employee training
- Manager and supervisor training
- "Mental Health Promotion System" using the following system.

Introduction of Discretionary Work System

Nippon Oil and NPRE have increased the degree of choice in working conditions to meet the diversifying needs of their employees. In April 2003, Nippon Oil introduced a specialist discretionary work system at the Central Technical Research Laboratory for research and development staff. In October 2006, considering that it would be good for employees involved in planning or making proposals to determine their working methods and allocation of time on a discretionary basis, Nippon Oil also introduced a planning staff discretionary work system at the head office and Central Technical Research Laboratory for such employees. As with the introduction of the flex-time, short-working hours, child-rearing and nursing care systems, the introduction of discretionary work systems has made it possible for Nippon Oil to better accommodate the diversified needs of its employees.

Supporting Women's Success

Aiming to help develop and effectively utilize human resources, in April 2004 Nippon Oil and NPRE eliminated the administrative assistant job category that encompassed the majority of female employees and merged this category with the general administration job category. As a result, many female employees will be able to enjoy more challenging jobs and a broader scope for using their work capabilities.

Helping Nurture the Next Generation

Based on the Law for Promoting Policies to Nurture the Next Generation, Nippon Oil and NPRE have created their first action plan to support employees at work and home.

First Action Plan Results

- Promoting Better Understanding of Human Rights
- Respect for human rights and dignity lies at the core of the six major focus areas of the Nippon Oil Group CSR program. The Nippon Oil Group believes it is the company's responsibility to manage and employ employees to make business judgments, act, and make statements based on a sense of objectivity and fairness regarding human rights. Based on this belief, we seek to promote the proper recognition and understanding of human rights by designing training programs from a variety of perspectives and providing them to new employees, middle-level personnel, management personnel, directors, and other levels of employees. Eighteen of the major companies of the Nippon Oil Group have banded together to form the Nippon Oil Human Rights Enlightenment Liaison Meeting, through which they work to promote better understanding of human rights throughout the Nippon Oil Group. As one example, every year during Human Rights Week in December, we endeavor to increase human rights awareness by asking employees of Group companies and their families to submit slogans related to human rights. Among other activities, we use our intranet to conduct training to encourage greater understanding of a variety of human rights issues. Our training efforts are not limited to lectures for employees of Group companies in the Tokyo area, we hold training sessions where they experience being in a wheelchair.

Initiatives for the Future

We are continuing to work on the themes of fiscal 2006. Based on these efforts, we are initiating measures to achieve better communication in the workplace and a well-balanced working life for our employees.

Using the child-rearing leave of absence system, I experienced being a house husband! When I discovered I was to be the father to twins, I decided to make use of the leave of absence system for child rearing because of conditions at home. Because it was the first time in my company that a man had taken a leave of absence for child rearing, I was worried that it would cause problems for my customers and my colleagues. However my boss and fellow workers encouraged me by saying "We'll back you up, don't worry about it, go ahead and let the babies started in life." The next 40 days of my leave of absence were spent doing so many things I wasn't accustomed to, like taking care of my eldest son, who is in kindergarten, changing diapers, and vacuuming and doing the laundry. My period as a house husband was over in a flash but I spent most of it thinking about how hard it was to raise babies. Now the babies are past the difficult period, and I am completely back to work. Beginning with the child-rearing system, my company offers a variety of systems to support the different ways of working and lifestyles of each of its employees. This support is very reassuring for the employees. I am certain that my valuable experience of being a house husband will serve me well for the rest of my life.

Koji Matsumoto
Chief Group Specialty Nonwoven Business Dept. NISSIN PLASTO Co., Ltd.

Image 1061x370 to 1204x470

33 CSR Report 2007

34 CSR Report 2007
An Independent Opinion

We asked One Akiyama to give us her professional opinion of the Nippon Oil Group’s CSR activities. Ms. Akiyama is the president of Integrity Inc., the company that has collected and analyzed the CSR Monitoring (See p. 14) for us.

President, Integrity Inc.
One Akiyama
Ms. Akiyama graduated from the Faculty of Economics, Waseda University. She is active in various roles including as a member of the board of the Asia Pacific Social Policy Council, a member of the Nippon Oil Group’s CSR monitoring committee, a judge for the Toyo Keizai’s temporary committee member of the Social Investment Forum Japan, and temporary committee member of the Cabinet Office of Social Investment Forum Japan.

Implementing our Group Philosophy in actual business is what CSR is all about.

Tabuchi: You have handled our CSR Monitoring two times now, in June 2005 and November 2006. To start with, what has been your impression of our CSR efforts?

Akiyama: I am impressed with the statement that “Implementing Group Philosophy in actual business is what CSR is all about,” and this practice has become firmly entrenched within your Group. The CSR activities that the Nippon Oil Group and all its employees should be involved with have been clearly defined and these programs have actually been implemented.

Tabuchi: What special features of our Group have emerged from the results of the survey?

Akiyama: I can tell that employees are proud of their work and their companies. Job satisfaction and loyalty are at high levels. In a word, you have a very good corporate culture. That being said, with the dramatic changes going on in today’s society, it is essential to lay down the groundwork for the next generation. It is necessary to provide effective information that is simple to understand and prepare employees for survival on a global basis. I believe that in these difficult times, with management forced to change course, CSR management is even more important than ever.

Akiyama: Precisely because the business environment is difficult, the pursuit of CSR, or in other words the sincere implementation of the Group Philosophy, has great significance. The philosophy incorporates the necessary direction of the Group and its vision for the future. It is the point of origin that one must always return to. What needs to be done to achieve the Nippon Oil Group’s Philosophy “Creating the energy future and promoting prosperity and harmony with nature.” How should the Group respond to society’s expectations? Considering these questions is exactly the function of CSR activities. By using the philosophy to determine specific strategies, such as solving environmental problems like the reduction of CO2 emissions or determining the role of the service stations in emergencies such as earthquakes, Nippon Oil will be able to fulfill its corporate social responsibility as an energy supplier. Moreover, because it is best if your activities are easy to understand for people on the outside, we hope you will endeavor to provide effective information that is simple to understand and prepared from the point of view of the reader.

Response to Received Opinions and Comments

The following is a representative example of how the Nippon Oil Corporation responded to opinions or comments received from those who completed the readers’ questionnaire in the Nippon Oil Corporation CSR Report 2006 and from those who responded via Nippon Oil’s CSR Web site “ENEOS Social Station.”

Opinion or Comment
I would like to see information on your activities regarding the recently popular biomass fuel.

Response of Nippon Oil Group
We are taking a variety of approaches to this issue, such as the start of test sales of biomass in April 2007. More details are reported on p. 30.

Opinion or Comment
I am interested in the CSR activities of your service stations, the most familiar part of your company to consumers.

Response of Nippon Oil Group
The CSR activities of service stations are reported on our CSR Web site (http://www.eneos.co.jp/company/csr/71_cocs_Otsu.html).

Opinion or Comment
I would like the company to make public information on accidents and problems if they occur.

Response of Nippon Oil Group
Information on accidents and problems and measures to prevent recurrence are reported on p. 18.

Independent Review Report

We asked One Akiyama to give us her professional opinion of the Nippon Oil Group’s CSR activities. Ms. Akiyama is the president of Integrity Inc., the company that has collected and analyzed the CSR Monitoring (See p. 14) for us.

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An Independent Opinion

We asked One Akiyama to give us her professional opinion of the Nippon Oil Group’s CSR activities. Mis. Akiyama is the president of Integrex Inc., the company that has collected and analyzed the CSR Monitoring (See p. 14) for us.

President, Integrex Inc.
One Akiyama

Miss. Akiyama graduated from the Faculty of Economic, Waseda University. She is active in various roles including as a member of the board of directors of the Oil Offices Social Policy Council, a member of Nippon Oil’s compliance committee, a judge for the top Nippon Oil Group’s corporate social responsibility, and a board director of Social Investment Forum Japan.

Interviewer
Hideo Tabuchi
Executive Officer, General Manager
Nippon Oil Corporation

Implementing our Group Philosophy in actual business is what CSR is all about.

Tabuchi: You have handled our CSR Monitoring two times now, in June 2005 and November 2006. To start with, what has been your impression of our CSR efforts?

Akiyama: I am impressed with the statement that “Implementing Group Philosophy in actual business is what CSR is all about,” and this practice has become firmly entrenched within your Group. The CSR activities that the Nippon Oil Group and all its employees should be involved with have been clearly defined and these programs have actually been implemented.

Tabuchi: What special features of our Group have emerged from the results of the survey?

Akiyama: I can tell that employees are proud of their work and their companies. Job satisfaction and loyalty are at high levels. In a word, you have a very good corporate culture. That being said, with the dramatic changes going on in today’s society, it takes a lot of effort to pass your good corporate culture on to the next generation. It is essential to lay down the groundwork for successful succession.

Ensuring that management and each and every employee are moving in the same direction will be important in pursuing CSR activities.

Tabuchi: What differences or similarities did you notice between the first and second surveys?

Akiyama: In the first survey, I found that the degree of penetration of the Group Philosophy was somewhat lacking. However, in April 2006, it was revised into an easy-to-understand philosophy using “Energy” as a keyword. Because of this clarification of the philosophy, in the second survey, it was clear that employees had a good understanding of the direction the Group was heading in. On the other hand, there was very little difference in the responses to the question “Do you think there are any hidden problems?” This indicates that employees understand the Group’s policies in the first survey, but making changes in the workplace of the Group takes time. Once the main course has been set, the smaller, individual issues must be tackled. In future, ensuring that management and each and every employee are heading in the same direction will be important.

As an energy supplier, I would like to see more concrete strategies emerge from Nippon Oil’s Group Philosophy, aimed at fulfilling social responsibility.

Tabuchi: Nippon Oil will soon celebrate its 120th anniversary. Until now, the Company has achieved growth using a relatively simple business model based on providing stable supplies of energy. Today, however, with declining demand in Japan arising from the lifting of various restrictions on the petroleum industry, we must develop new businesses for the future and compete for survival on a global basis. I believe that in these difficult times, with management forced to change course, CSR management is even more important than ever.

Akiyama: Precisely because the business environment is difficult, the pursuit of CSR, or in other words the sincere implementation of the Group Philosophy, has great significance. The philosophy incorporates the necessary direction of the Group and its vision for the future. It is the point of origin that one must always return to. What needs to be done to achieve the Nippon Oil Group’s Philosophy “Creating the energy future and promoting prosperity and harmony with nature,” or how should the Group respond to society’s expectations? Considering these questions is exactly the function of CSR activities. By using the philosophy to determine specific strategies, such as solving environmental problems like the reduction of CO2 levels or determining the role of station services in emergencies such as earthquakes, Nippon Oil will piece-by-piece fulfill its corporate social responsibility as an energy supplier. Moreover, because it is best if your activities are easy to understand for people on the outside, we hope you will endeavor to provide effective information that is simple to understand prepared from the point of view of the reader.

Response to Received Opinions and Comments

The following are representative examples of how the Nippon Oil Group responded to opinions or comments received from those who completed the Readers’ Questionnaire in the Nippon Oil Corporation CSR Report 2006 and from those who responded via Nippon Oil’s CSR Web site “ENEOS Social Station.”

Opinion of Comment
We are taking a variety of approaches to this issue, such as the start of test sales of biomass fuel in April 2007. More details are reported on p. 30.

I am interested in the CSR activities of your service stations, the most familiar part of your company to consumers.

The CSR activities of service stations are reported on our CSR Web site (http://www.eneos.co.jp/company/csr/06/csr_06ss.html).

I would like the company to make public information on accidents and problems if they occur.

Information on accidents and problems and measures to prevent recurrences are reported on p. 18.

Independent Review Report

We have revised the Nippon Oil Corporation CSR Report 2006 (hereafter “Report”) prepared by Nippon Oil Corporation (“Company”). The purpose of our review was to verify the CSR activities of the Nippon Oil Group, and we decided that this practice should be continued.

To ensure that the Report is the responsibility of the Company’s management, the responsibility to provide the readers with respect to the review performed on the Report from an independent perspective.

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Scope of Review

The Review Office decided to review the Report from the point of view of the Social Policy Council. The Review Office decided to review the Report from the point of view of the Social Policy Council.

Review Items

The Review Office decided to review the Report from the point of view of the Social Policy Council.

Review Method

The Report is the responsibility of the Company’s management. The responsibility to provide the readers with respect to the review performed on the Report from an independent perspective.

Review Report

Submit Independent Review Report

Procedure for Independent Review Report

1. Confirm items listed
2. Decide review items and method of review
3. Perform review
4. Review report
5. Follow up on indicated items from Step 1

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This environmental report review/registration mark indicates that the environmental information in this report is reliable insofar as it satisfies the environmental report review/registration mark standards of the Japanese Association of Assurance Organizations (http://www.j-aoei.org/).