

NIPPON OIL CORPORATION CSR REPORT 2007



NIPPON OIL
Your Choice of Energy

Corporate and Group Information

Corporate and Group Overview

Company name:	Nippon Oil Corporation(Nippon Oil)
Founded:	May 10, 1888
Representative Director, Chairman of the Board:	Fumiaki Watari
Representative Director, President:	Shinji Nishio
Capital:	¥139.4 billion
Nonconsolidated net sales:	¥5,826.4 billion (FY2006)
Consolidated net sales:	¥6,624.3 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

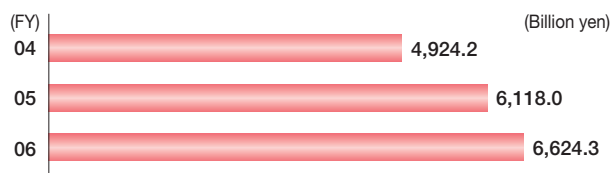
- 1888 Nippon Oil Corporation established
- 1931 Mitsubishi Oil Co., Ltd., established as a 50%-50% joint venture by three Mitsubishi Group companies (Mitsubishi headquarters, Mitsubishi Mining Co., Ltd., and MITSUBISHI SHOJIKAIISHA, LTD.) and U.S.-based Associated Oil Company (later known as Getty Oil)
- 1933 Koa Oil Co., Ltd. established
- 1951 Nippon Petroleum Refining Company Limited established as a 50%-50% joint venture by Nippon Oil and Caltex
- 1968 Tohoku Oil Co., Ltd., established
- 1999 Nippon Oil and Mitsubishi Oil merged, creating Nippon Mitsubishi Oil 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

Financial Highlights

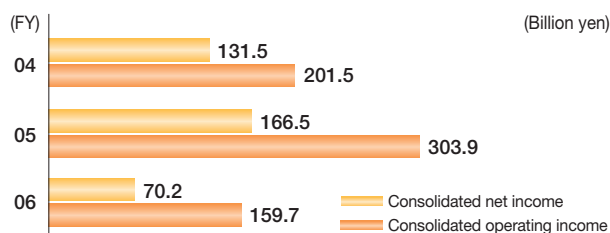
For detailed information on business performance, financial data and the third medium-term consolidated management plan, refer to Nippon Oil's annual report and website.

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

Consolidated Net Sales



Consolidated Net Income and Consolidated Operating Income



Consolidated Return on Equity

	FY04	FY05	FY06
	14.8%	16.0%	5.9%

ENEOS Brand Symbol




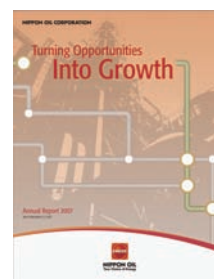
"Energy" is designed as a symbolic form. The globe in the center represents reliability and continuity of the group corporate entity, and the spiral spreading outward symbolizes creativity and innovation of group corporate activities.

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>



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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	● Nippon Oil Corporation
Refining and processing of petroleum products	● Nippon Petroleum Refining Co., Ltd.*1 Nihonkai Oil Co., Ltd.
Manufacture, processing and sale of petrochemical products	● Nippon Petrochemicals Co., Ltd.*2 NISSEKI PLASTO Co., Ltd.*3
Exploration & Production business	● Nippon Oil Exploration Limited
Oil storage	● Nippon Oil Staging Terminal Co., Ltd. Okinawa CTS Corporation, Shibushi Oil Storage Co., Ltd. Kamigoto Oil Storage Co., Ltd.
Lubricants	● Wakayama Petroleum Refining Co., Ltd.
Oil transport	● Nippon Oil Tanker Corporation
Construction & Engineering	● NIPPO CORPORATION
Related operations	● Nippon Oil Trading Corporation Nippon Oil Real Estate Co., Ltd. Nippon Oil Business Services Co., Ltd. Nippon Oil Research Institute Co., Ltd. Nippon Oil Information Technology Corporation

*1 Merged with Nippon Oil Processing Co., Ltd. on October 1, 2006.

*2 Head office divisions (administration, sales and R&D) integrated with Nippon Oil on April 1, 2006 via a corporate split.

*3 Added to the scope of the report after becoming a subsidiary of Nippon Oil on April 1, 2006.

Editorial Objectives

This report has been prepared with the objective of providing 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:

- This report was prepared with reference to *Environmental Report Guidelines (2003 Edition)* of the Ministry of the Environment and the *GRI Sustainability Reporting Guidelines 2002*.
- Beginning with the issuance of the Group's Environmental Report in 2000, 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 .



Location: Hibiya Park in Tokyo

Management Commitment

Representative Director, President
Nippon Oil Corporation

Shinji Nishio

Interviewer
Freelance Broadcast Journalist

Junko Kubo

Junko Kubo attended elementary school in the United Kingdom and high school in the United States. She is a graduate of Pioneer Central High School in New York and Keio University's Faculty of Letters. After joining NHK in 1994 she appeared as an announcer on a variety of programs. She became a freelance broadcast journalist in 2004. She also translates children's books and teaches English to children at a school run by her mother. She has written several books, including *Nana-korobi ya-oki* (Fall down seven times, get up eight) and *Kubojun's Eigokko* (Junko Kubo's English Kids)

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 VIGO." The sulfur content of gasoline and diesel fuel has been kept to 10 ppm or less, in anticipation of future government regulation. If 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 and heat to houses and micro-grids that supply electricity and





heat to houses and establishments in the immediate area.

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 out ¥50 million in grants every year in a stable manner over thirty years, from a total of ¥1.5 billion in trust assets, for innovative and progressive basic research directed toward the realization of

a hydrogen-based society.

Kubo: Is it correct to say then that you will accumulate a broad range of knowledge and foster specific technologies?

Nishio: Yes, that's correct. This is because a number of technological innovations will be necessary to make hydrogen a practical reality. The fund will give rise to a large number of new technologies, which we expect will hasten the arrival of a hydrogen-based society.

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 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

Six Values We Respect

Ethics
New ideas
Environmental harmony
Relationships
Global approaches
You

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 cultures and customs of the people of all countries or regions,
- (4) Not 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,

- (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 restraints 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 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 status,
- (8) Not buy or sell shares using insider information,
- (9) Confirm and 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

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 are producing significant results in the area of preventing global warming.



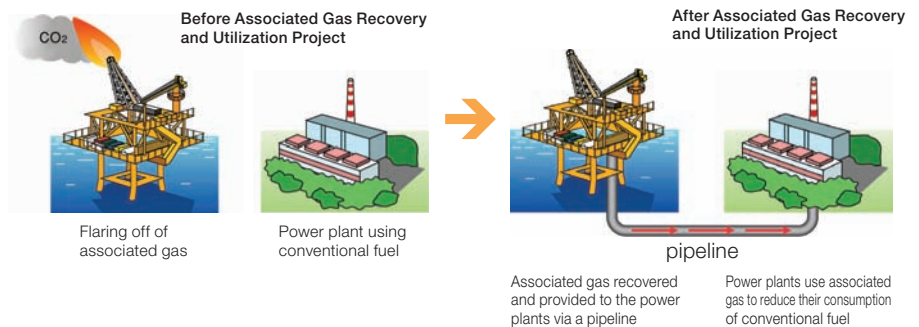
Promoting a project to reduce CO₂ that is garnering praise and expectations around the world Rang Dong oil field associated gas recovery and utilization CDM in Vietnam

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

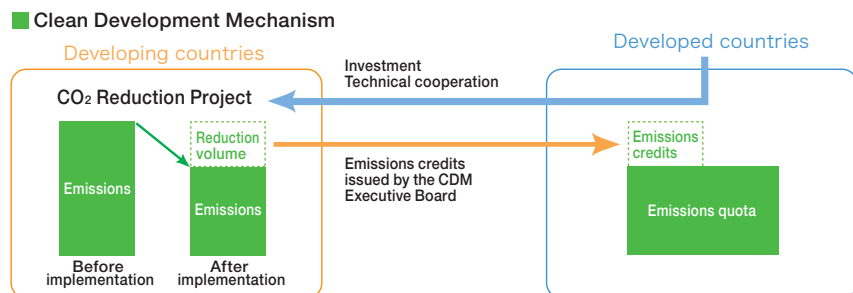
This project was registered as a CDM* in February 2006. It is the world's first CDM involving the recovery and effective utilization of associated gas and one of the world's largest CO₂ emission reduction CDM.

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. Within the framework of the Kyoto Protocol, when the industrialized countries and developing countries cooperatively achieve CO₂ emission reductions, the CDM Executive Board will issue certified emission reduction credits corresponding to the size of the reduction.





Drilling platform in Vietnam's Rang Dong oil field

interview

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.



Shinichi Tsuchida
Environment Planning Group
Environment & Safety Dept.
Nippon Oil Corporation

column

Social contribution activities in Vietnam

The Nippon Oil Group 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.



Some 200 children attend Muong Phang Elementary School

■ 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.



Children and staff members working hard at rehabilitation

Environmentally 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 constructing and verifying new scientific principles not constrained by conventional thinking, nurture the seeds of technological

innovations, and contribute to the early 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 inventiveness.

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

interview

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



Kenichiro Ota
(Professor,
Yokohama National University)
ENEOS Hydrogen Trust Fund
Management Committee Chairman

The major benefit of hydrogen is that when it is used as energy it only 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 sees hydrogen as the clean energy of 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

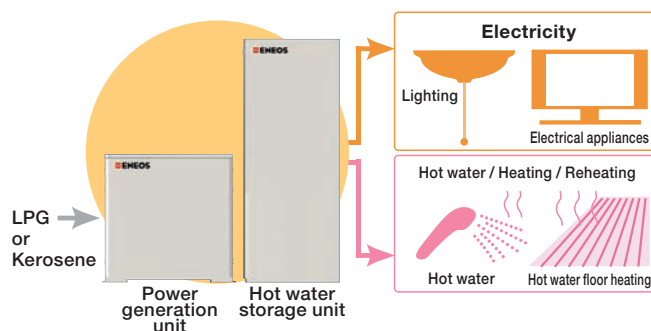
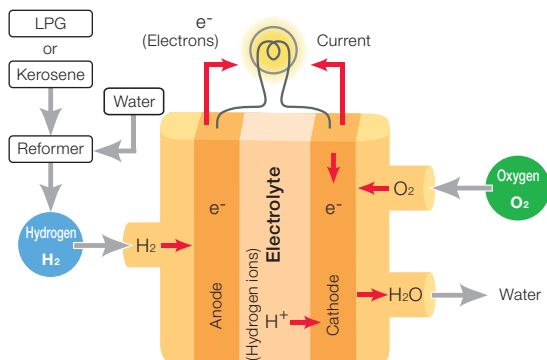
Nickel-hydrogen batteries, which are used in hybrid automobiles and other applications, are one example of hydrogen energy in practical application. Nippon Oil has successfully developed and commercialized the world's first residential-use fuel cell systems. The systems use LPG and kerosene and incorporate 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 electrochemical reaction between oxygen and hydrogen. For this reason our residential-use fuel cell systems generate almost no nitrogen oxide or sulfur oxide 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).

Fuel Cell System



interview

Convenient, ecological fuel cell for electricity and hot water



Yasushi Sato
PEFC Group
Central Technical Research
Laboratory
Nippon Oil Corporation

Generate electricity from hydrogen and oxygen—put 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 deriving 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.

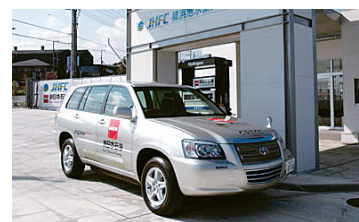
column

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-Asahi 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.



Yokohama-Asahi Hydrogen Station
(This FCV belongs to the Central Technical Research Laboratory)

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.



A "Dr. Drive" service station capable of supplying fuel following earthquakes

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 earthquakes. 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 ambulances.

Service stations with this capability consist of Dr. Drive service stations* located in places that would make the stations particularly important or effective after earthquakes. They have been equipped with emergency generators and portable emergency pumps so gasoline or diesel can be



Emergency generator

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 is a new ENEOS service station network. It provides both service station and maintenance shop services.

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 operation, the immediate aftermath of an earthquake, and recovery. We have a responsibility to society to ensure the stable supply of energy and meet the expectations of customers by continuing on with our core operations.



A service station after being verified as safe following the Great Hanshin Awaji Earthquake in January 1995 (Photo provided by Tatsuno Corporation)

interview

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.

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.



Yoshinori Igarashi
Manager,
Dr. Drive service station,
Kosugi Nisshin-shoji Co., Ltd.

column

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 Todoroki Ground 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.



*The balloon shelter is only one square meter in size when in storage but can be expanded by filling it with air to accommodate around 100 disaster victims. (It takes around 40 minutes to set up.)

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.

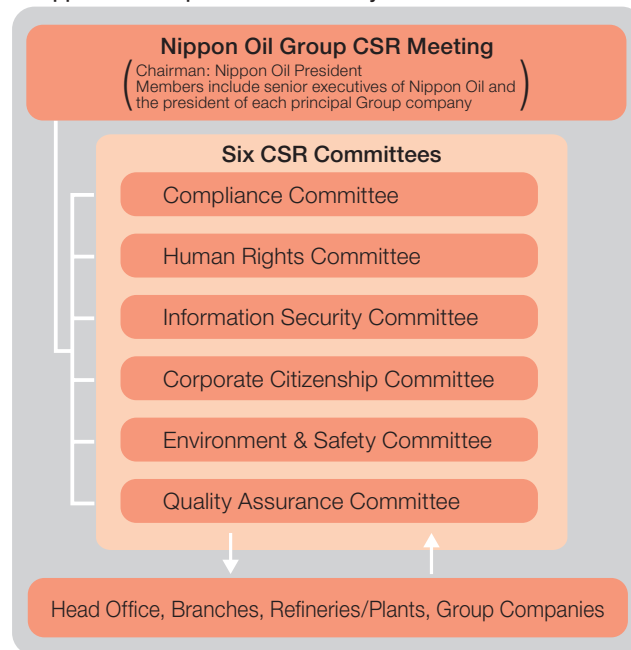
Checking CSR Activities / Publishing Minutes

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.

■ Nippon Oil Group CSR Promotion System



Emphasized Themes and Main Initiatives of the Six CSR Committees

Six CSR Committees	FY2006 Themes (Refer to the pages listed in parentheses for specific achievements)	FY2007 Themes
Compliance Committee	1. Confirming legal compliance of operations 2. Augmenting educational and training programs that promote awareness of fundamental legal issues (p. 16)	1. Confirming legal compliance of operations 2. Conducting training on legal issues tailored to individual needs 3. Reevaluating the internal reporting system
Human Rights Committee	1. Promoting greater communication 2. Promoting healthy work styles (pp. 33, 34)	Promoting healthy work styles —Promote communication and balance between work and private life
Information Security Committee	Thorough protection of information on individuals and other confidential information (p. 16)	Prevention of leaks of information on individuals and other confidential information
Corporate Citizenship Committee	Social contribution activities following major disasters (pp. 12, 31, 32)	Develop ENEOS science classes on a nationwide basis
Environment & Safety Committee	1. Developing environmental protection programs superior to those of other industries 2. Rebuilding safety culture and practices (pp. 17, 18, 21-30)	1. Making the Group even more environmentally progressive —Promote environmental management on a unified Group basis 2. Rebuilding safety culture and practices —Eliminate labor accidents and injuries
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 (p. 20)	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

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 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 worksites 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 worksite to analyze and respond to issues by posting the details of the survey on the Group intranet.

■ Nippon Oil Group 2006 CSR Monitoring

Coverage: All executives and employees (including temporary employees, and employees of temporary labor agencies, etc.) at the 18 principal companies in the Nippon Oil Group
 Format: 23 questions; anonymous response
 Implemented: November 2006
 Response rate: 88% (approx. 9,000 respondents)

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?

12% 37% 37% 14%

Do you think you understand the policies of top-level management in your organization?

33% 50% 14% 3%

Do you feel that views may be freely expressed at your workplace?

25% 52% 17% 6%

Do you know response and communication methods in the event of an emergency?

55% 36% 7% 2%

Are you happy with your decision to work at the Group?

32% 57% 9% 2%

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 4,600 executives and employees of the Nippon Oil Group have gone through the 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 of Community Service and Science. Professor Nakaya is a leading proponent of management ethics education using the case method.

Case Method

The case method is an educational method in which trainees independently analyze and make decisions on ethical dilemmas directly encountered in the business world. It is widely used at business schools in the United States and is an effective training method for fostering an ethical business outlook.

The program seeks to facilitate ethically proper decisions by having the people faced 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.



A lively group discussion session

● 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. Decisions 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 consultative 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 consultative 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.

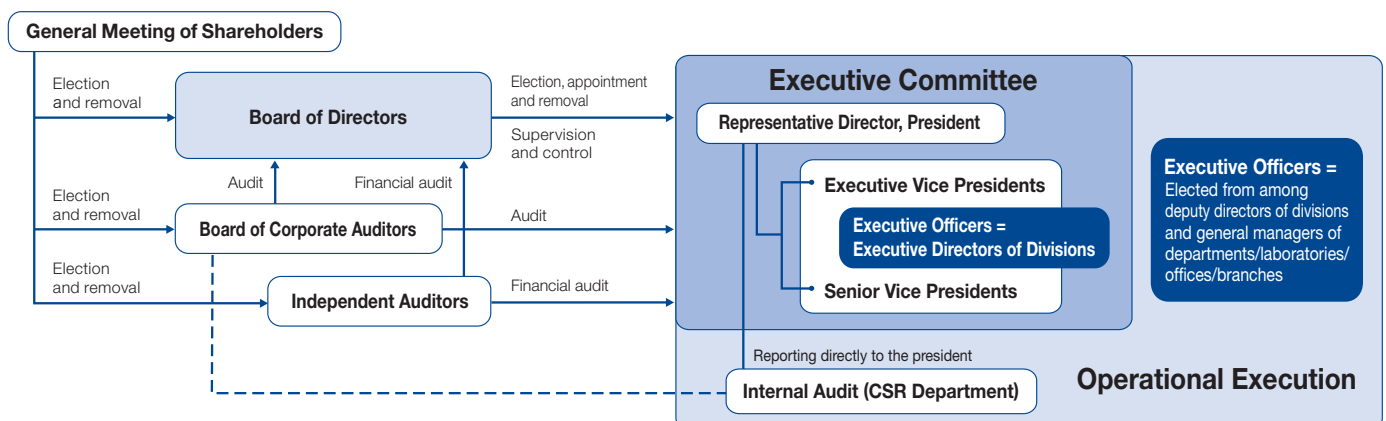
Building Internal Control Systems

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 internal and external changes related to its operations and business environment by establishing additional internal control systems that feature still-greater effectiveness.

System for Operational Execution and Control and Supervision



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)

If Nippon Oil Group employees (including part-timers, 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.

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.

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 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.



Extending oil fences and recovering oil in a drill to prevent seawater contamination

●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.

●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.



A comprehensive disaster prevention drill

●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.



A skills competition

●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.

●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, Yokohama Refinery, Nippon Petrochemicals and Okinawa CTS Corporation and a total of 140 people participated.



Countermeasures headquarters during training



Upgrading preparedness for potential disasters by strengthening crisis management systems and coordinating with the local community

Kuniaki Miyahara

Environment & Safety Group
Nippon Oil Staging Terminal Co., Ltd.

The Kiire Oil Terminal takes in and sends out crude oil as the frontline domestic storage terminal for the Nippon Oil Group. The terminal links oil-producing countries with refineries in Japan and is thus a key link in the oil road, with 500 tankers coming and going each year. To ensure that this oil road keeps moving we devote our full efforts to ensuring safety both onshore and offshore.

We firmly believe that unless we excel in drills, they are of 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 coordination with related organizations and local citizens and enhance our system for immediate response in the event of a disaster.



A disaster prevention drill involving local residents

Incidence of Labor Accidents

Data on labor accidents at the refineries are shown in the tables below. In fiscal 2006, there was an increase in injuries that caused lost workdays, so frequency*1 and severity*2 both worsened.

■Number of Labor Accidents (NPRC)

	Injury with lost workdays	Injury without lost workdays
FY2004	1	9
FY2005	2	6
FY2006	5	6

■Ratios Indicating Frequency and Severity of Accidents (NPRC)

	Frequency	Severity
FY2004	0.21	0.001
FY2005	0.42	0.008
FY2006	1.00	0.016

■Supplementary Information: Frequency and Severity Ratios

	All Industries		Chemical Industry		Petroleum Industry	
	Frequency	Severity	Frequency	Severity	Frequency	Severity
2004	1.85	0.12	0.88	0.06	0.20	0.005
2005	1.95	0.12	0.90	0.07	0.61	0.010

Source: Ministry of Health, Labor and Welfare, Labor Accident Survey. For petroleum refining, statistics are from the Labor Survey issued by the Petroleum Association of Japan.

*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 seriousness of labor accidents that occur.

Initiatives for the Future

In fiscal 2007, we will strive to entrench 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 reoccurrence

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 earthquakes of approximately 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.

Responses 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 response are described below:

Date	Nature of Accident	Corporate Action
August 2006	At NPRC's Muroan Refinery, there was an incident involving a floating cover inside 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.	An investigative committee was established at the Muroan Refinery. The causes of the incident were investigated and measures were established to prevent its reoccurrence. We surmised that light gas was mixed in with the naphtha in the tank and this gushed out from the deck seal of the floating cover, which caused naphtha to pool on top of the cover, which in turn caused the cover to lose buoyancy, then sink down into the naphtha. In terms of countermeasures, we took steps that included installing a pipeline to send cracked naphtha containing light gas directly to downstream equipment and installing gas detectors inside the tanks.
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.	This 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 made during refurbishment work, so we implemented measures to prevent reoccurrence of the incident that included instructing all partner construction companies to enhance work procedures, more fully monitor worksites, and more effectively management inventory from before and after refurbishment work.

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 quality assurance in supplying products and services to customers.

<Quality Assurance Policy>

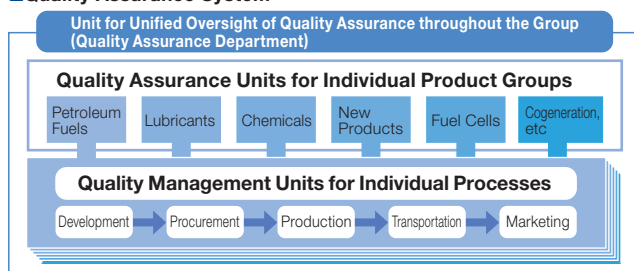
We will provide high-quality products and exceptional services to the satisfaction of each and every one of our customers.

1. 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.
2. We will pursue customer satisfaction and strive to constantly maintain or improve the quality of our products and services.
3. 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.
4. We will provide appropriate, easy-to-understand information to customers, including information on the proper use of our products and warning labels.
5. We will promptly and faithfully respond to quality-related complaints, incidents and accidents, uncover their causes and strive to prevent their reoccurrence.
6. We will comply with every law and regulation 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*.

*The major oil companies in Japan mutually assist each other by supplying petroleum products on a barter basis. By helping reduce the distance products that must be transported, these barter transactions help reduce the environmental impact of oil companies' operations.

Quality Assurance System



In fiscal 2006, following discussions by the Quality Assurance Committee, it was decided to emphasize the themes of (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, and (3) Increasing the quality of services provided. We carried out a variety of initiatives to execute these priorities.

Main Initiatives in Fiscal 2006

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

Specific Examples

Emphasized Theme	Example Activities
Preventing complaints and problems	Progress made in standardizing work in each process
	Quality assurance training conducted for employees in charge of sales
Building quality assurance systems focused on items procured from outside	Division of assurance responsibilities clarified
	System for communicating with business partners strengthened
Increasing the quality of services provided	Monitoring of service stations
	Conducted customer satisfaction survey

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



Standardized operations



Greeting a customer at a service station

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

Customer Consultation Service  Call ENEOS toll-free at **0120-56-8704** Hours: 9:00 a.m. to 5:30 p.m. Monday through Saturday (except national holidays)

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.

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.)

<Nippon Oil Group Environmental Vision>

- As a comprehensive energy company, we will work to create a sustainable society.
- We will continue to offer energy and products that are environmentally friendly.
- We will continue to develop new energy technologies.

Expanding the Scope of ISO 14001 Certification

Since April 1996, when the Negishi 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 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*

* Certification Test for Environmental Specialists; administered by the Tokyo Chamber of Commerce and Industry

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.

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



Kimio Nakazawa

Vice President
NIBIKI Co., Ltd.

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 to certification procedures—and thanks to the course we succeeded in obtaining certification in August 2006. While we had some difficulty reaffirming 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. Going forward, we plan to make maximum use of our environmental management system in day-to-day activities.

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 → ○ : Objective achieved △ : Objective partially achieved × : Objective not achieved

Principal Theme	Objectives	FY2006 Achievements and Assessments	FY2007 Objectives
Establishment of environmental management systems (p. 21)	Expand the scope of ISO 14001 certification		
	Expand the scope of certification at Nippon Oil branches and Group companies	<ul style="list-style-type: none"> All Nippon Oil branches and the head offices of eight Group companies*1 acquired certification Three dealerships obtained ISO 14001 certification after taking the Nippon Oil certification course for dealerships and sales companies 	○ Complete certification for the head offices of 18 Group companies
Environmentally friendly products and services (pp. 9, 10, 30)	Expand sales of environmentally friendly products and services, and develop and popularize new energy		
	Promote sales of ENEOS NEW VIGO	Promoted sales of ENEOS NEW VIGO	Expand sales of ENEOS NEW VIGO
	Sales of residential-use LPG-powered fuel cell systems	Sales of residential-use LPG-powered fuel cell systems (installed 229 units)	Sales of residential-use LPG-powered fuel cell systems (install 250 units)
	Sales of residential-use kerosene-powered fuel cell systems	Sales of residential-use kerosene-powered fuel cell systems (installed 76 units)	○ Sales of residential-use kerosene-powered fuel cell systems (install 146 units)
Promote initiatives in the area of biomass fuels	<ul style="list-style-type: none"> Prepared to begin trial sales of biogasoline formulated with bioETBE*2 Conducted joint development of second-generation biodiesel*3 	<ul style="list-style-type: none"> Begin trial sales of biogasoline formulated with bioETBE Confirm the environmental performance of second-generation biodiesel 	
Activities to reduce environmental impact (pp. 7, 8, 26-30)	1. Global warming prevention measures		
	Reduce specific energy consumption at refineries	Reduced 17.3% compared with FY1990 level	○ Continue to reduce by an average of 1% per year (Goal to reduce 20% from FY1990 level by FY2010)
	Verification for issuance of certified emission reductions for the Rang Dong oil field associated gas recovery and utilization CDM	Conducted verification	Issue of certified emission reductions
	2. Soil contamination surveys and countermeasures		
	Completion of surveys of operating properties belonging to the Nippon Oil Group and conduct countermeasures	Completed surveys of operating properties belonging to the Nippon Oil Group (1,117 properties surveyed; countermeasures for 60)	○ Conduct countermeasures based on surveys and prevailing conditions
	Work to make low cost soil remediation technology*4 practically viable	Conducted practical demonstration	Continue to develop the technology and run verification
	3. Measures to reduce waste		
	Achieve zero emissions at all NPRC refineries	<ul style="list-style-type: none"> Achieved zero emissions at all NPRC refineries Achieved zero emissions at the Nippon Oil Group*5 (waste disposal ratio of 0.9%) 	○ Promote initiatives to achieve a waste disposal ratio of less than 0.5% for the Nippon Oil Group
	4. Reduction of environmental impact in offices		
	Reduce consumption of electric power and paper, and waste volume disposed	Reduced electric power consumption by 4%, paper consumption by 22%, and waste volume disposed by 15%	△ Reduce electric power consumption by 10%, paper consumption by 30%, and waste volume disposed to zero
Other environmental activities	1. Green procurement		
	Improve green purchasing ratio	Green purchasing ratio increased to 99.8%	○ Increase green procurement ratio to 100%
	2. Environmental contribution activities		
Donations to the National Land Afforestation Promotion Organization	Cumulative donations reached approximately ¥90 million	○ Cumulative donations to reach approximately ¥110 million	

*1 Nippon Petroleum Refining Co., Ltd., Nippon Oil Exploration Limited, Nippon Oil Real Estate Co., Ltd., Nippon Oil Trading Corporation, Nippon Oil Research Institute Co., Ltd., Nippon Oil Information Technology Corporation, Shibushi Oil Storage Co., Ltd., Kamigoto Oil Storage Co., Ltd.

*2 An abbreviation of ethyl tertiary butyl ether, a substance that is created by synthesizing plant-based bioethanol with isobutene from petroleum-based gas.

*3 A form of diesel made by decomposing and refining a variety of fatty oils by applying hydrogenation technology originating in oil refining.

*4 Purification technology for soil and groundwater that does not require excavation (conventional methods involve excavating the contaminated soil)

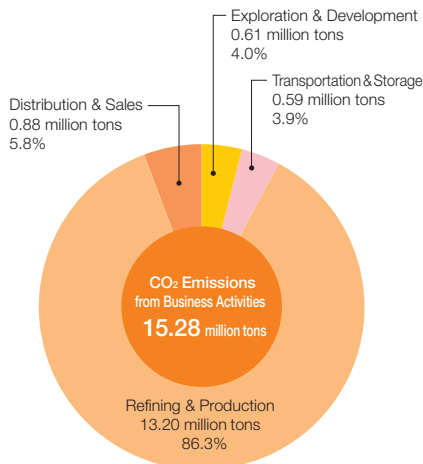
*5 Sixteen of the Nippon Oil Group's 18 principal companies (excludes Nippon Oil Exploration Limited and NIPPO CORPORATION)

Supply Chain Environmental Impact

Environmental impact along the supply chain, from exploration and development to consumption, is shown in the table to the right.

As a comprehensive energy company, the Nippon Oil Group considers the global environmental impact of energy consumption and actively works to reduce CO₂ emissions.

CO₂ Emissions from Nippon Oil Group Business Activities in FY2006 (from exploration and development to distribution and sales)



● CO₂ emissions in fiscal 2006 from the business activities of the Nippon Oil Group totaled 15.28 million tons, a reduction of 0.6% from the fiscal 2005 total of 15.37 million tons.

● Refining and production accounts for over 80% of the CO₂ emissions from the Nippon Oil Group's business activities, so we have established targets for specific energy consumption at refineries that are more rigorous than those set by the Petroleum Association of Japan and are working to reduce CO₂ emissions on this basis.

Exploration & Development

	FY2005	FY2006	Change
Electricity (Million kWh)	0.9	1.0	0.1
Fuel (1,000 kℓ ^{*1})	171 ^{*2}	175	4
Water (1,000 tons)	20	9	-11
Seawater (Million tons)	59	57	-2

^{*1} Crude oil equivalent
^{*2} Actual figures revised



	FY2005	FY2006	Change
Crude Oil (Purchased)	62.26 million ℓ	59.36 million ℓ	-2.90 million ℓ

● Nippon Oil Exploration Limited

	FY2005	FY2006	Change
Crude Oil & Condensate (Production) ^{*5}	3.72 million ℓ	3.81 million ℓ	0.09 million ℓ
Gas (Production) ^{*5}	3.1 billion m ³	3.2 billion m ³	0.1 billion m ³

^{*5} Data from Japan Vietnam Petroleum Co., Ltd. and Nippon Oil Exploration (Malaysia) Limited



	FY2005	FY2006	Change
CO ₂ (1,000 tons)	609	608	-1
SO _x (tons)	175	148	-27
NO _x (tons)	1,520	1,554	34
Dust (tons)	33	39	6
COD (tons)	90	147	57
Waste volume disposed (tons)	34,634	35,957	1,323

Transportation & Storage

	FY2005	FY2006	Change
Electricity (Million kWh)	25	24	-1
Fuel (1,000 kℓ)	232	212	-20
Water (1,000 tons)	165	138	-27
Seawater (Million tons)	120	114	-6



- Nippon Oil Tanker Corporation
- Nippon Oil Staging Terminal Co., Ltd.
- Okinawa CTS Corporation
- Shibushi Oil Storage Co., Ltd.
- Kamigoto Oil Storage Co., Ltd.



	FY2005	FY2006	Change
CO ₂ (1,000 tons)	641	587	-54
SO _x (tons)	12,237	11,525	-712
NO _x (tons)	28	26	-2
Dust (tons)	8	5	-3
COD (tons)	0.2	0.2	0.0
Waste volume disposed (tons)	780	646	-134
VOC Benzene (tons)	1	1	0
Toluene (tons)	0	0	0
Xylene (tons)	0	0	0

INPUT DATA

Electricity : Volume purchased from outside
Fuel : Usage for in-house power generation and other uses
Water : Usage of fresh water and industrial water
Seawater : Usage of water from the sea

Refining & Production

	FY2005	FY2006	Change
Electricity (Million kWh)	254	349	95
Fuel (1,000 kℓ)	5,061	5,003	-58
Water (1,000 tons)	76,198*2	76,081	-117
Seawater (Million tons)	632	532	-100



- Nippon Petroleum Refining Co., Ltd.*6
- Nippon Petrochemicals Co., Ltd.
- Nihonkai Oil Co., Ltd.
- Wakayama Petroleum Refining Co., Ltd.
- NISSEKI PLASTO Co., Ltd.*7

*6 Merged with Nippon Petroleum Processing Co., Ltd. in October 2006

*7 Added to scope of data in fiscal 2006



	FY2005	FY2006	Change
CO ₂ (1,000 tons)	13,237	13,203	-34
SO _x (tons)	5,158	5,049	-109
NO _x (tons)	7,857	7,549	-308
Dust (tons)	682	768	86
COD (tons)	506	503	-3
Waste volume disposed (tons)	1,161*2	738	-423
VOC Benzene (tons)	34	34	0
Toluene (tons)	113	136	23
Xylene (tons)	52	54	2

Distribution & Sales

	FY2005	FY2006	Change
Electricity (Million kWh)	27	67*3	40
Fuel (1,000 kℓ)	319	313*3	-6
Water (1,000 tons)	195*2	389*4	194

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

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



- Nippon Oil Corporation



	FY2005	FY2006	Change
CO ₂ (1,000 tons)	883*2	878	-5
SO _x (tons)	4	4	0
NO _x (tons)	2	3	1
Dust (tons)	0.2	0.2	0.0
COD (tons)	0.4	0.4	0.0
Waste volume disposed (tons)	12	35	23

Customers (Consumption)

	FY2005	FY2006	Change
Domestic fuel oil sales volume (1,000 kℓ) (including crude oil for power companies)	53,370	48,120	-5,250



	FY2005	FY2006	Change
CO ₂ (1,000 tons)	133,669	120,302	-13,367

The Nippon Oil Group is contributing to the reduction of greenhouse gas emissions at the stage of consumption by customers through improving fuel economy with sulfur-free*8 automotive fuels, including the environmentally friendly, premium gasoline ENEOS NEW VIGO.

*8 Sulfur content of 10 ppm or less

Note: CO₂ emissions are calculated based on version 1.2 of the Ministry of the Environment's manual dealing with calculating and reporting of greenhouse gas emissions by businesses. This includes methane and dinitrogen monoxide.

Environmental Efficiency and Environmental Accounting

Integrated Evaluation of Environmental Impact

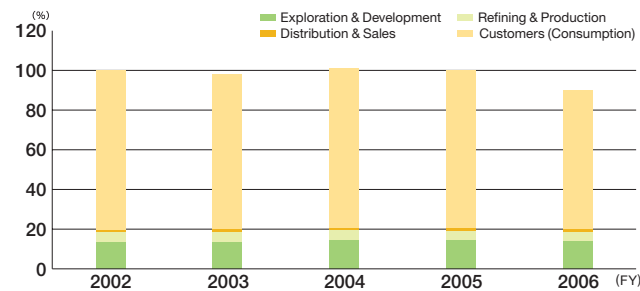
We comprehensively evaluate environmental initiatives along the entire supply chain and tie these initiatives to environmental impact reductions.

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

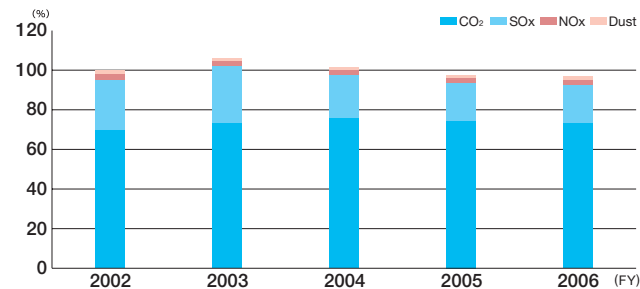
The Group's activities to reduce environmental impact resulted not only in lowering total environmental impact, but also in improving environmental efficiency, which is a measure of the relationship between production volume and environmental impact.

*The environmental impact of various environmentally harmful substances (CO₂, SO_x, NO_x, dust, etc.) are integrated using the LIME method (version 2.0), which was developed by the National Institute of Advanced Industrial Science and Technology.

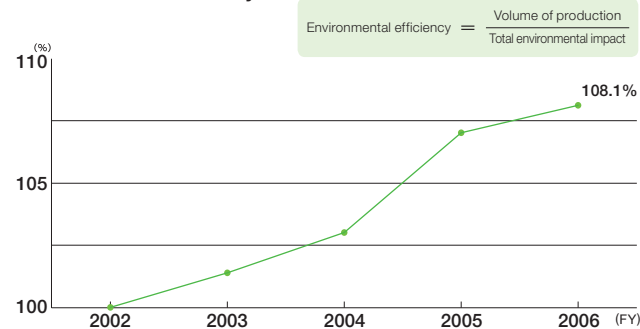
Total Environmental Impact



Total Environmental Impact in Refining



Environmental Efficiency



Note: Starting with this year's report, the above data include export-related environmental impact and environmental efficiency. Based on this, change evaluations now use fiscal 2002 as the baseline year.

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 1999.

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.

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.

Environmental Accounting for FY2006

(Billion yen)

Major Category		Sub-category	FY2005	FY2006
Environmental Investments	Target management	Measures to prevent global warming	8.9	2.6
		Environmentally friendly product development	1.1	1.0
		Surveys and countermeasures for soil contamination	-	-
		Measures for waste treatment	0.0	0.0
	Compliance	Pollution prevention	5.6	2.2
		Waste treatment	0.0	0.0
		Green belts, etc.	0.0	0.0
	Internal management	Daily management	-	0.0
		Environmental measures for products	1.6	1.3
	Environmental remediation	Surveys and countermeasures for soil contamination	-	-
		Levies for pollution	-	-
	Total			17.2
Environmental Expenses	Target management	Measures to prevent global warming	7.1	9.6
		Environmentally friendly product development	7.9	8.2
		Surveys and countermeasures for soil contamination	2.3	4.8
		Measures for waste treatment	4.6	4.3
	Compliance	Pollution prevention	23.9	28.1
		Waste treatment	1.6	1.9
		Green belts, etc.	0.5	0.7
	Internal management	Daily management	1.4	1.4
		Environmental measures for products	81.7	95.0
	Environmental remediation	Surveys and countermeasures for soil contamination	-	-
		Levies for pollution	1.2	1.0
	Total			132.2

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.

Main Initiatives in Fiscal 2006

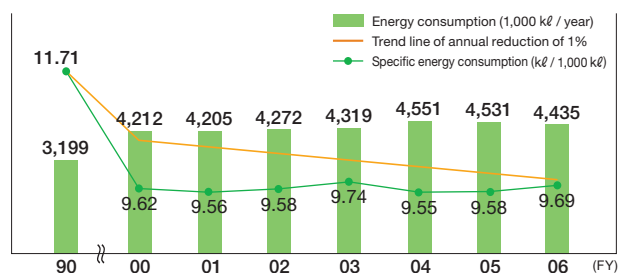
●Initiatives at the Refining Stage

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 10% 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.

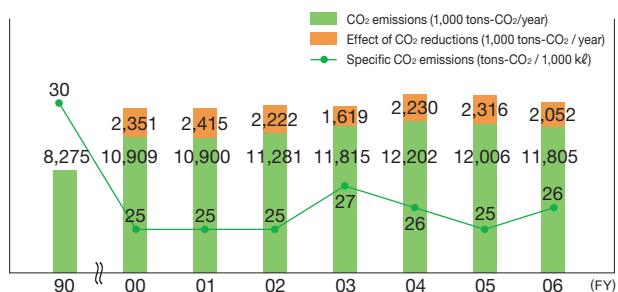
*A target established by the PAJ based on the voluntary action plan of the Nippon Keidanren (Japan Business Federation).

■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.

■Specific CO₂ Emissions and CO₂ Emissions at Oil Refineries



●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 kℓ, a 15% 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 (JGRF).

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.

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 Clean 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.

* Equivalent to just under 1% of total greenhouse gas emissions in Japan in fiscal 2005.

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 2001, the Nippon Oil Group determined its In-house guidelines for the survey and remediation of soil and groundwater, establishing a basic policy for addressing soil and contamination issues. In addition to the specific harmful substances covered by the Soil Contamination Countermeasures Law, these guidelines voluntarily establish criteria regarding oil contamination, which is not addressed by the Law. These criteria are also compliant with the Petroleum Contamination Countermeasure Guidelines issued by the Ministry of the Environment in March 2006.

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.



Gas density inspection underway at an operating service station

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

Category	Surveys		Countermeasures	
	Number	Expenses (million yen)	Number	Expenses (million yen)
Service stations	1,061	643	53	1,705
Oil depots	19	75	4	1,007
Refineries and other business sites	97	177	3	980
Total	1,177	895	60	3,692

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

Category	Locations	Survey results				Countermeasures	
		Soil		Groundwater			
		Substances	Multiplying factor (vs. standard value)	Substances	Multiplying factor (vs. standard value)		
Idle land	Kashiwazaki, Niigata Pref.	Lead (content)	93	Arsenic	16	Under way	
		Arsenic (elution)	19				
		Benzene	1				
	Nagoya, Aichi Pref.	Lead (elution)	3	Benzene	21		Completed
		Benzene	8				
	Komaki, Aichi Pref.	Lead (content)	2	Benzene	170		Under way
		Benzene	8				
	Matsuzaka, Mie Pref.	Benzene	1	Benzene	16		Under way
Osaka, Osaka Pref.	Lead (content)	8	Arsenic	1	Completed		
	Heavy metal, etc. (elution)	4					
Okayama, Okayama Pref.	—	—	Benzene	2	Completed		
Okayama, Okayama Pref.	Benzene	2	Benzene	440	Under way		
Business sites	Sapporo, Hokkaido Pref.	Benzene	3	—	—	Under way	
	Koshigaya, Saitama Pref.	Benzene	860	Benzene	2,900	Under way	
	Mitaka, Tokyo Pref.	Benzene	2	—	—	Completed	
	Hiratsuka, Kanagawa Pref.	Benzene	47	Benzene	41	Under way	
	Obu, Aichi Pref.	Benzene	28	Benzene	370	Under way	

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.



Soil remediation underway at an idle service station site

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.

*Nippon Oil Group's "zero emissions":

$$\frac{\text{Waste volume disposed}}{\text{Waste volume generated}} < 1\%$$

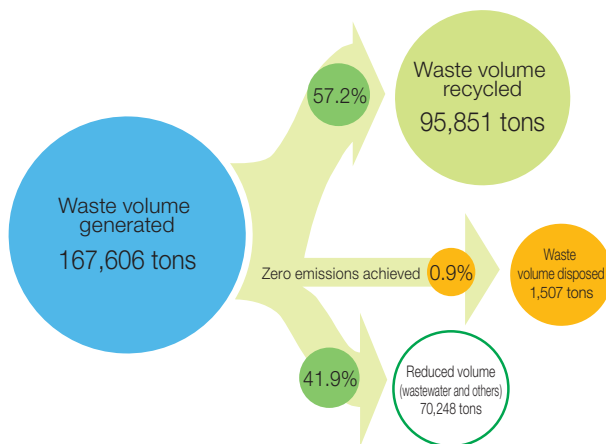
Main Initiatives in Fiscal 2006

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%.

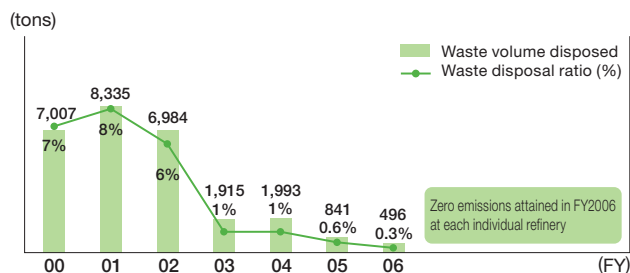
The Nippon Oil Group as a whole* also achieved zero emissions in fiscal 2006, reaching a goal originally set for fiscal 2010 well ahead of time.

* Excluding Nippon Oil Exploration Limited and NIPPO CORPORATION

Nippon Oil Group's Waste Volume Disposed and Waste Disposal Ratio in FY2006



NPRC's Waste Volume Disposed and Waste Disposal Ratio



Zero emissions for office waste too. Another step forward toward becoming an even more environmentally advanced company.



Kaori Takano

Environment Planning Group
 Environment & Safety Dept.
 Nippon Oil Corporation

As part of its Zero Emissions program, Nippon Oil is working to separate its office waste into different recyclable categories. Specifically, personal trash cans, which made it difficult to control waste separation, have been completely removed. Instead, "separated waste collection areas" have been set up within offices and their mini-kitchen areas that divide waste into 12 different categories. In practical terms, the different types of waste are separated according to color coding and recycling methods. Detailed explanations of the sorting method are available over the intranet and steps have been taken to ensure awareness of the process throughout the office.

Following a three-month trial period, Nippon Oil implemented the process throughout its head office starting in April 2007. The new system's introduction represents a big step forward toward a waste disposal ratio of zero in Nippon Oil's offices.



Separated waste collection area in office

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 plus":

$$\frac{\text{Waste volume disposed}}{\text{Waste volume generated}} < 0.5\%$$

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), 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 Disruption 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.

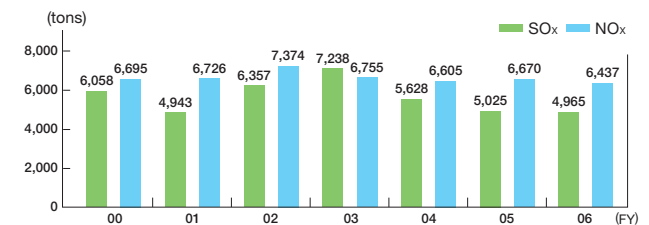
Refining and Production Stage

Air Pollution Countermeasures

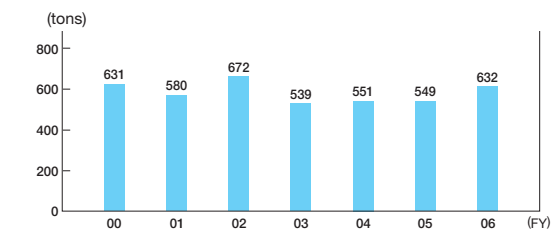
The Nippon Oil Group takes the countermeasures described below to reduce air pollutants (SO_x, NO_x, dust). We comply rigorously with the Air Pollution Control Law and local government ordinances.

Air pollutants	Countermeasures
SO _x	<ul style="list-style-type: none"> Fuels that generate low levels of sulfur by-product gases Exhaust gas desulfurizing equipment
NO _x	<ul style="list-style-type: none"> Low-NO_x burner equipment Exhaust gas denitration equipment Daily combustion management
Dust	<ul style="list-style-type: none"> Electric precipitator Daily combustion management

SO_x and NO_x Emission Volumes*



Dust Emission Volumes*



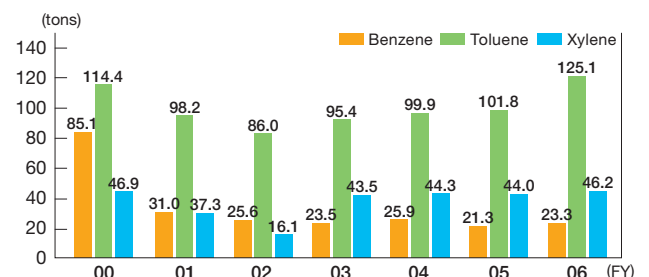
* Figures are for the 7 refineries of NPRC as well as the facilities of Nihonkai Oil Co., Ltd., and Wakayama Petroleum Refining Co., Ltd.

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.

NPRC's Emission Volumes of Benzene, Toluene, and Xylene



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, HCs, 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).



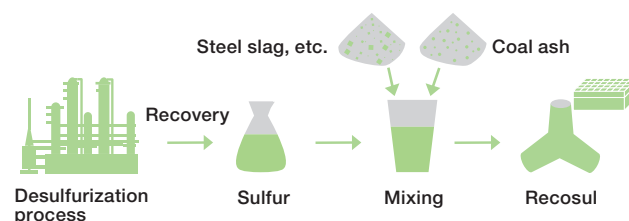
- Improves fuel economy up to **3%** or acceleration up to **5%***1
- Reduces air valve grime **86%***2
- Guaranteed sulfur content of **10ppm** or less

*1 Compared with Nippon Oil's previous premium gasoline as of 2000 (based on an in-house study)
*2 Reduction after engine use corresponding to 10,000 km of driving (based on an in-house study)

●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 2006, U-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.”

■Producing Recosul



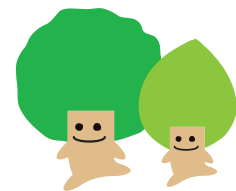
Biomass Fuel Activities

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 a energy source, there are still many issues to be addressed. Nippon Oil is contributing to that process through the following activities.

●Biogasoline

To attain the targets set under the Kyoto Protocol (Cabinet 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 360,000kℓ per year, a crude oil equivalent of 210,000kℓ per year) by fiscal 2010. The use of bioethanol is expected to produce a 600 thousand metric ton reduction

per year in CO₂ emissions. Nippon Oil began test sales of biogasoline formulated with ETBE at some service stations in the Tokyo metropolitan area in April 2007.



バイオガソリン

●Biodiesel

Since 2005, Nippon Oil and Toyota Motor Corporation have been jointly developing a processing technology for hydrogeneration of oil produced from biomass to achieve a second-generation biodiesel fuel. Toyota and Hino Motor Co., Ltd., are confirming that bio hydrofined 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.

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)

<Basic Policy for Social Contribution Activities>

1. The Nippon Oil Group works to achieve environmental harmony. The Group also values highly its ties with all its stakeholders and seeks to contribute to making a better, more pleasant lifestyle for everyone.
2. The Nippon Oil Group actively pursues activities that make society better and more livable with the principal themes of "environment and energy" and "contribution to the community," while also supporting the voluntary activities of employees that contribute to society.
3. The Nippon Oil Group continues to contribute to society and aims to be the comprehensive energy company winning maximum support from the general public.

Main Initiatives in Fiscal 2006

Environmental and Energy Conservation Activities

●Tokyo Greenship Action

This environmental protection program assists with the preservation of the precious, unspoiled natural environment remaining in the city of Tokyo. It is sponsored by the Tokyo Metropolitan Government, private sector corporations, nonprofit 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-Kanri-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 those 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 refineries 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 Yamanashi Prefecture. In fiscal 2006, Nippon Oil held 5 sessions, training a total of 88 people.



Volunteers at ENEOS Forests event

●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 18 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 petroleum," and "I realized that ENEOS is really thinking about the environment."



ENEOS children's science classes

Activities Contributing to the Community

●ENEOS Soccer School

Since 1976, members of the soccer team at NPRC's Mizushima 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 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.



A soccer school for children

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 schoolchildren participated in these events.



A baseball class for children



<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 enunciation-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.

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).

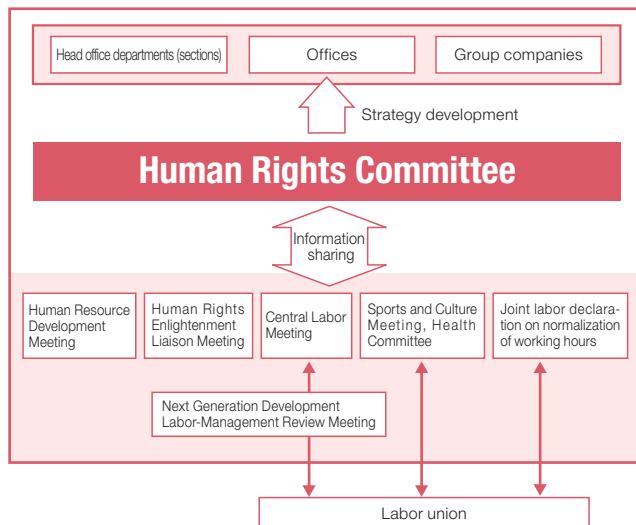
Respect for Human Rights and Dignity

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 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, NPRC, and other Group companies to be reflected in their personnel strategies.

Human Rights Committee System



In fiscal 2006, the Human Rights Committee analyzed and deliberated the following themes with the goal of promoting a corporate culture where each individual employee can work energetically and develop his or her individual personality and abilities.

1. Promoting Greater Communication

Along with the growing sophistication, specialization, and use of information technology at work, communication between employees or between employees and their managers or supervisors has declined in quality and in quantity. Recognizing this trend as having a possible negative impact on smooth and safe operations, the committee considered ways of improving communication.

2. Promoting Healthy Work Styles

The committee went back to the roots of the long-debated issue of appropriate working hours—achieving a balance between work hours and results as well as labor quality and quantity. From these points of view, the committee debated actual working styles and how to make them healthy.

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

Mental Health Promotion System

		Self care	Unit care
Prevention	Provide information	Intranet, e-mail magazine, pamphlets	
	Stress check	Health checkups for employees working long hours	
	Training & education	Regular employee training (Self management)	Manager and supervisor training (Workplace management)
Dealing with cases	Advisory services	In-house advisory service (Personnel Dept.) Periodic checkup (Company doctor) EAP employee support program (Outside service)	
	Return to work support		Return to work support program

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 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 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.

●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

Objectives	Results												
Promoting the use of paid vacation time	<ul style="list-style-type: none"> •Concluded agreement with labor union to have employees actually take paid vacation time •Promoted actual use of paid vacation time •Set recommended days for taking annual leave (May 2, December 29) 												
Promoting the use of leaves of absence for child rearing	<table border="1"> <thead> <tr> <th>Leaves of absence</th> <th>FY2004</th> <th>FY2005</th> <th>FY2006</th> </tr> </thead> <tbody> <tr> <td>Men</td> <td>0 persons</td> <td>1 person</td> <td>1 person</td> </tr> <tr> <td>Women*</td> <td>100%</td> <td>100%</td> <td>100%</td> </tr> </tbody> </table> <p>*Percentage of women who took maternity leave taking child-rearing leave of absence</p>	Leaves of absence	FY2004	FY2005	FY2006	Men	0 persons	1 person	1 person	Women*	100%	100%	100%
Leaves of absence	FY2004	FY2005	FY2006										
Men	0 persons	1 person	1 person										
Women*	100%	100%	100%										
Increasing the length of leaves of absence for child rearing	Extended child-rearing leave of absence to a maximum of 2 years												
Introducing a program allowing for a reduced number of work hours per day	Introduced a reduced working hours system for child-rearing, nursing care of relatives, and rehabilitation reasons Use of system: 9 persons												

●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 important for all management and 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 e-learning 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.



Employee experiencing using a wheelchair during training session

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! I am very grateful for the understanding afforded me in the workplace.



Koji Matsumoto

Claf 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.

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 Integrex Inc., the company that has collected and analyzed the CSR Monitoring (See p. 14) for us.

President, Integrex Inc.

One Akiyama

Ms. Akiyama graduated from the Faculty of Economics, Keio University. She is active in various roles including as a temporary committee member of the Cabinet Office's Social Policy Council, a member of NHK's compliance committee, a judge for Toyo Keizai's sustainability reporting award, a judge for the Key Firm of Integrity award, and Board Director of Social Investment Forum Japan.



Interviewer

Hideo Tabuchi

Executive Officer, General Manager
of Corporate Social Responsibility Dept.
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 the fact that 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 that process.

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 thinking on an issue, but making changes in the each 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.

Tabuchi: It is my hope that the CSR Monitoring provides employees with an opportunity to think about CSR. In actual fact, the various divisions and departments in the Group have already started working on activities based on the results of the second survey.

Akiyama: Employees taking the initiative to spring into action is an indication of the good atmosphere in the Group, isn't it? I hope this good atmosphere is spread to all the companies of the Nippon Oil Group. Because more and more people are coming to work for the Group other than as full-time employees, you can say that establishing a new system to ensure smooth communication is an urgent issue.

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 service stations 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, I hope you will endeavor to provide effective information that is simple to understand and prepared from the point of view of the reader.



One Akiyama and Hideo Tabuchi.

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 or Comment	Response of Nippon Oil Group
I would like to see information on your activities regarding the recently popular biomass fuel.	We are taking a variety of approaches to this issue, such as the start of test sales of biogasoline 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/e71_cocs_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 reoccurrence are reported on p. 19.

Independent Review Report

(TRANSLATION)

Independent Review Report

June 8, 2007

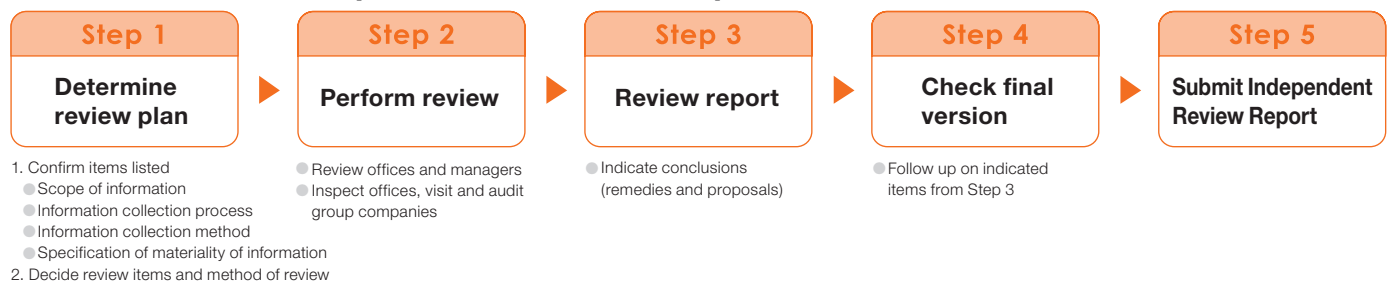
Mr. Shinji Nishio,
Representative Director, President
Nippon Oil Corporation

Tohatsu Environmental Research Institute Ltd.
Chief Executive Officer Komuro, Masamitsu

Executive Officer Mase, Mizuko

- 1. Scope of the Review**
We have reviewed the "NIPPON OIL CORPORATION CSR REPORT 2007" ("Report") prepared by Nippon Oil Corporation ("Company"). The purpose of our review was to provide limited assurance from an independent practitioner about whether material environmental information for the period from April 1, 2006 to March 31, 2007 included in the Report was disclosed without omission, accurately measured and calculated, referring to the Environmental Reporting Guidelines -Fiscal Year 2003 version (issued by the Japanese Ministry of the Environment) and GRI Sustainability Reporting Guidelines (Version2), in accordance with calculation methods adopted by the Company.
- 2. Responsibility of the Management**
The Report is the responsibility of the Company's management. Our responsibility is to provide our limited assurance with respect to the review performed on the Report from an independent practitioner.
- 3. Summary of Review**
To obtain an adequate and valid standard of basis for providing limited assurance with respect to our conclusions, we performed our review with reference to the International Standard on Assurance Engagements (ISAE) 3000 (issued by the International Federation of Accountants in December 2003), Proposed Environmental Report Review Standard (issued by the Japanese Ministry of Environment in March 2004) and Practical Guideline for Assurance Engagement of Environmental Information (issued by the Japanese Association of Assurance Organizations for Environmental Information in January 2006).
The review procedures performed for the material environmental information for the period from April 1, 2006 to March 31, 2007 included in the Report were consisted of; 1) agreeing information to summary tables and supporting documents on a sample basis; 2) interviewing the responsible personnel and the persons in charge; 3) reviewing of and agreeing information to the relevant minutes, 4) the Company's regulations, and ISO related documents and so on; site visits; and 5) comparing information with other available supporting internal and external materials.
- 4. Conclusions**
On the basis of the review procedures described in the preceding paragraph, nothing has come to our attention that caused us to believe the material environmental information for the period from April 1, 2006 to March 31, 2007 included in the Report was omitted or not accurately measured or calculated, referring to the Environmental Reporting Guidelines -Fiscal Year 2003 version (issued by the Japanese Ministry of the Environment) and GRI Sustainability Reporting Guidelines (Version2), in accordance with calculation methods adopted by the Company, in all material respects.
- 5. Special Interests**
There are no interests between the Company and Tohatsu Environmental Research Institute Ltd. or its engagement personnel, requiring disclosure referred to the provisions of the Certified Public Accountants Law of Japan.

Procedure for Independent Review Report



NIPPON OIL CORPORATION

3-12, Nishi Shimbashi 1-chome, Minato-ku, Tokyo 105-8412, Japan
URL <http://www.eneos.co.jp/english/>



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 for Environmental Information (<http://www.j-aoei.org/>).