

**NIPPON OIL CORPORATION**

CSR Report 2008

# Social Responsibility



**NIPPON OIL**  
Your Choice of Energy

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## Other Publication

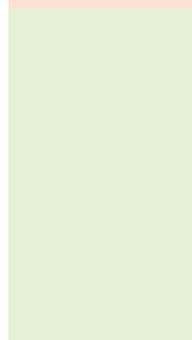
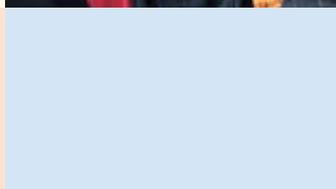
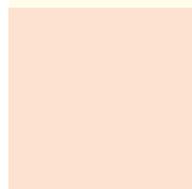
### Annual Report 2008

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

This can be obtained from website.



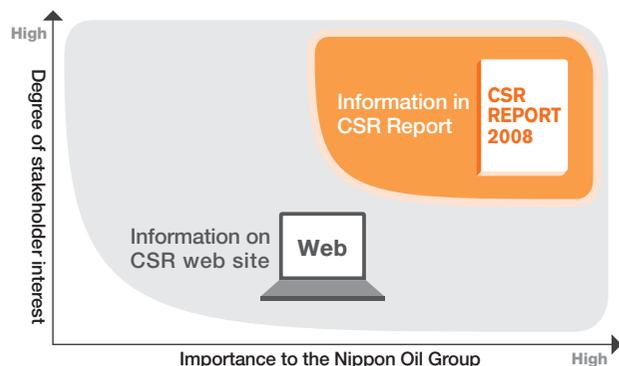
[www.eneos.co.jp/  
english/ir/library](http://www.eneos.co.jp/english/ir/library)



## Editorial Note

The CSR web site “ENEOS Social Station” provides a wide range of information (in Japanese) concerning activities undertaken by the Nippon Oil Group to fulfill our corporate social responsibilities. This site is updated regularly. We publish this CSR Report in printed form to illustrate the main themes of those CSR-related activities that are of greatest interest to stakeholders and are important to the Nippon Oil Group. Previous editions of the CSR Report took a more superficial approach to some areas in an attempt to provide a more comprehensive overview. In this edition, we have focused on those material aspects that we view as important and which we believe many stakeholders will find interesting. Please refer to the main CSR web site for more comprehensive information on the Nippon Oil Group’s CSR-related activities. The three main themes covered in this report were selected based on stakeholder feedback and an internal debate that took into consideration the company’s Fourth Medium-Term Management Plan, which started in fiscal 2008. As editors, our primary goal has been to create a report that you will want to pick up and read.

### ● Scope of CSR-related information



#### [Gauging stakeholder interest in topics]

We referred mainly to the following in gauging the level of stakeholder interest in various CSR-related topics:

- Questionnaires received from CSR Report 2007 and CSR web site
- Suggestions from independent reviewers and opinions of CSR experts
- Feedback received from customers
- Questions received from mass media and research organizations

#### [Reference publications]

- Environmental Reporting Guidelines (2007 Edition), Ministry of the Environment
- GRI Sustainability Reporting Guidelines 2006

## Main Contents of CSR Web Site

 [www.eneos.co.jp/company/csr](http://www.eneos.co.jp/company/csr) (in Japanese)

Please visit our CSR web site, which provides information on all of the CSR-related activities of the Nippon Oil Group.

### Environmental

- Medium-Term Environmental Management Plan
- Environmental management
- Global warming prevention measures
- Activities to reduce environmental impact
- Environmental data, etc.

### Social

- Social contribution
- Quality assurance, Customer consultation service
- Respect for human rights and dignity, etc.

### Economic

- Compliance
- Corporate governance
- Information security
- Ensuring safety, etc.
- Crisis management
- Raising dividend levels
- Investor relations

The web site also features other CSR-related content, including a “Topics” section and information on initiatives such as ENEOS Forests outdoor classes.

## Scope of Report

#### Reporting period:

The report covers activities from April 1, 2007 to March 31, 2008 (fiscal 2007), and may also include more recent information.

#### Companies covered:

The report covers the 19 major companies in the Nippon Oil Group listed below (of which 15 are consolidated subsidiaries\*1, accounting for 94% of net sales in fiscal 2007).

Nippon Oil Corporation, Nippon Petroleum Refining Co., Ltd.\*2, Nippon Oil Exploration Limited, Nippon Oil Trading Corporation, ENEOS Frontier Co., Ltd.\*3, ENEOS CELLTECH Co., Ltd.\*3, Nihonkai Oil Co., Ltd., Wakayama Petroleum Refining Co., Ltd., Nippon Oil Tanker Corporation, Nippon Oil Staging Terminal Co., Ltd., Okinawa CTS Corporation, Shibushi Oil Storage Co., Ltd., Kamigoto Oil Storage Co., Ltd., Nippon Oil Real Estate Co., Ltd., Nippon Oil Research Institute Co., Ltd., Nippon Oil Information Technology Corporation, Nippon Oil Business Services Co., Ltd., NISSEKI PLASTO Co., Ltd., NIPPO CORPORATION

\*1. ENEOS CELLTECH Co., Ltd., Shibushi Oil Storage Co., Ltd., Kamigoto Oil Storage Co., Ltd. and Nippon Oil Research Institute Co., Ltd. are all nonconsolidated subsidiaries.

\*2. This firm merged with Nippon Petrochemicals Co., Ltd. on April 1, 2008.

\*3. This firm was included within the scope of this report from April 1, 2008.

# Management Commitment

Motivated by a sincere aim to realize the Nippon Oil Group Philosophy of “Creating the energy future and promoting prosperity and harmony with nature,” we continue to focus on stable energy supplies and environmental harmony.

## The environment surrounding Nippon Oil Group

This year we celebrate the 120th anniversary of the establishment of Nippon Oil. I would first like to take this opportunity to thank all of our customers and the many other stakeholders whose support has helped our company to reach this milestone.

In 2008, the Nippon Oil Group faces a tough operating environment characterized by a number of major changes, including rising crude oil prices, which continue to set new records, a structural decline in domestic demand and the increasing threat of global warming.

## Initiatives to promote sustainable growth and development

Starting in April 2008, we are implementing the Group’s Fourth Medium-Term Management Plan to respond to the changing business environment and to promote sustainable growth and development. This plan calls for reorganizing our core refining and marketing business and strengthening our oil and natural gas exploration and production (E&P) business as the main pillar of the Group’s growth strategy. Another key focus of this plan is to promote environmental management, which has been an especially important theme of our approach to date.

## CSR management at Nippon Oil Group

Motivated by a sincere aim to realize the Nippon Oil Group Philosophy of “Creating the energy future and promoting prosperity and harmony with nature,” we continue to focus on the two main pillars of CSR management—stable energy supplies and environmental harmony.

Since stable energy supplies requires steady expansion of our oil and natural gas E&P business, this is one of the major themes of the Fourth Medium-Term Management Plan. We plan to increase our investments in E&P business. Naturally, another essential aspect of maintaining a stable supply of petroleum products is to keep our refineries and other facilities running safely and securely. We have set up the Refinery Project Office to oversee restructuring to our refinery operations as part of daily efforts to ensure that these vital facilities operate without trouble. At the same time, we are developing our network of service stations in ways that will ensure they can continue to function after an earthquake. In the event of a power outage due to a disaster, these service stations can supply fuel to disaster-hit regions and evacuation areas as well as for emergency and other vehicles. As for environmental harmony, one of the new plan’s major themes is to promote new technology-based businesses. We are stepping up efforts to develop residential-use fuel cell and solar power generation systems, both of which could make a significant contribution to reducing Japan’s environmental impact. By the end of March 2009, we aim to have a cumulative base of more than 1,300 fuel cell systems installed in Japanese households (which would account for a projected 40% of total installations nationwide by that time). We are working on improving both the performance and durability of these systems while trying to reduce costs further by developing related mass-production capabilities ahead of a planned full-scale marketing launch in fiscal 2009. In the solar power generation business, we are aiming to enter the sector on a commercial basis as quickly as possible by investing in solar panel makers and participating in joint research projects between industry and academia. We are also making progress with a number of other initiatives that form part of our environmental management strategy. We are working to expand sales of ENEOS NEW VIGO, an environmentally friendly,



**Shinji Nishio**  
Representative Director, President  
Nippon Oil Corporation

premium gasoline. We also will continue stable operation of associated gas recovery and utilization, a Clean Development Mechanism (CDM) project at the Rang Dong oil field in Vietnam, which received approval of the world's largest one-time issuance of CO<sub>2</sub> emissions reduction credits under the CDM framework.

We are focusing on reducing specific energy consumption within our refining operations, which account for approximately 80% of total Group CO<sub>2</sub> emissions. Under the Fourth Medium-Term Management Plan, we have set a target of reducing overall specific energy consumption by 20% relative to fiscal 1990 levels by fiscal 2010. In doing so, we aim to make a significant contribution to Japan's efforts to meet national emissions-reduction targets under the Kyoto Protocol.

## CSR promotion system

To contribute to the development of a sustainable society through the conscientious undertaking of such activities, it is vital that we construct a dynamic organization and build relationships of trust based on

the passion, motivation and abilities of every single officer and employee working for the Group. We must motivate people and instill a strong sense of ethics so that every one of us is willing to take up this challenge without clinging to precedent or established concepts. I will take the lead so that the power to address these challenges with new ideas and a passion for reform come from every officer and employee. Together, we will fulfill the social responsibilities of the Nippon Oil Group.

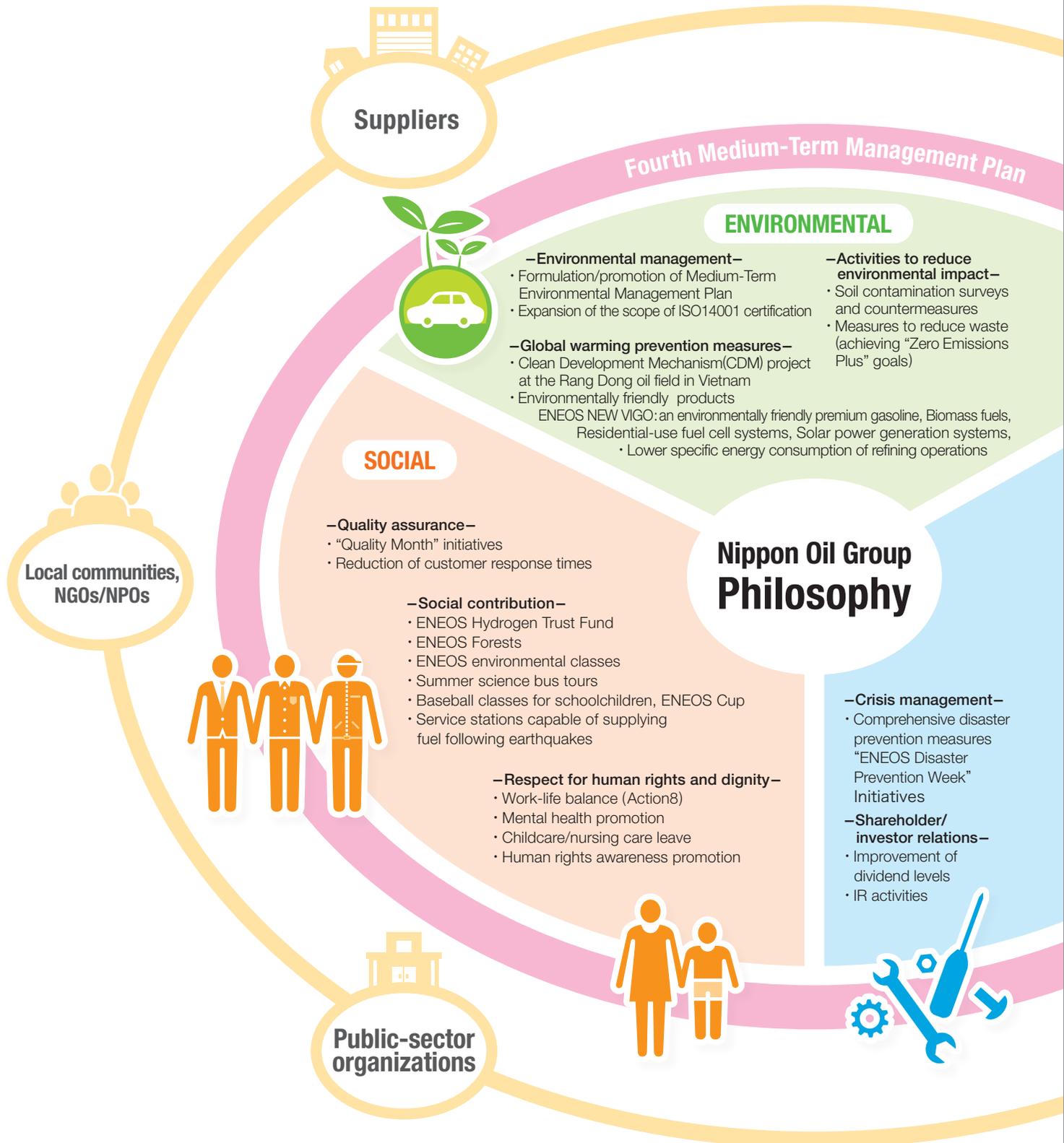
This "CSR Report 2008" focuses on three specific CSR-related themes of material importance that we believe are also of great interest to stakeholders. We have tried to explain what we are doing in these areas in a straightforward way to aid general understanding of Group activities in these fields. The three areas are:

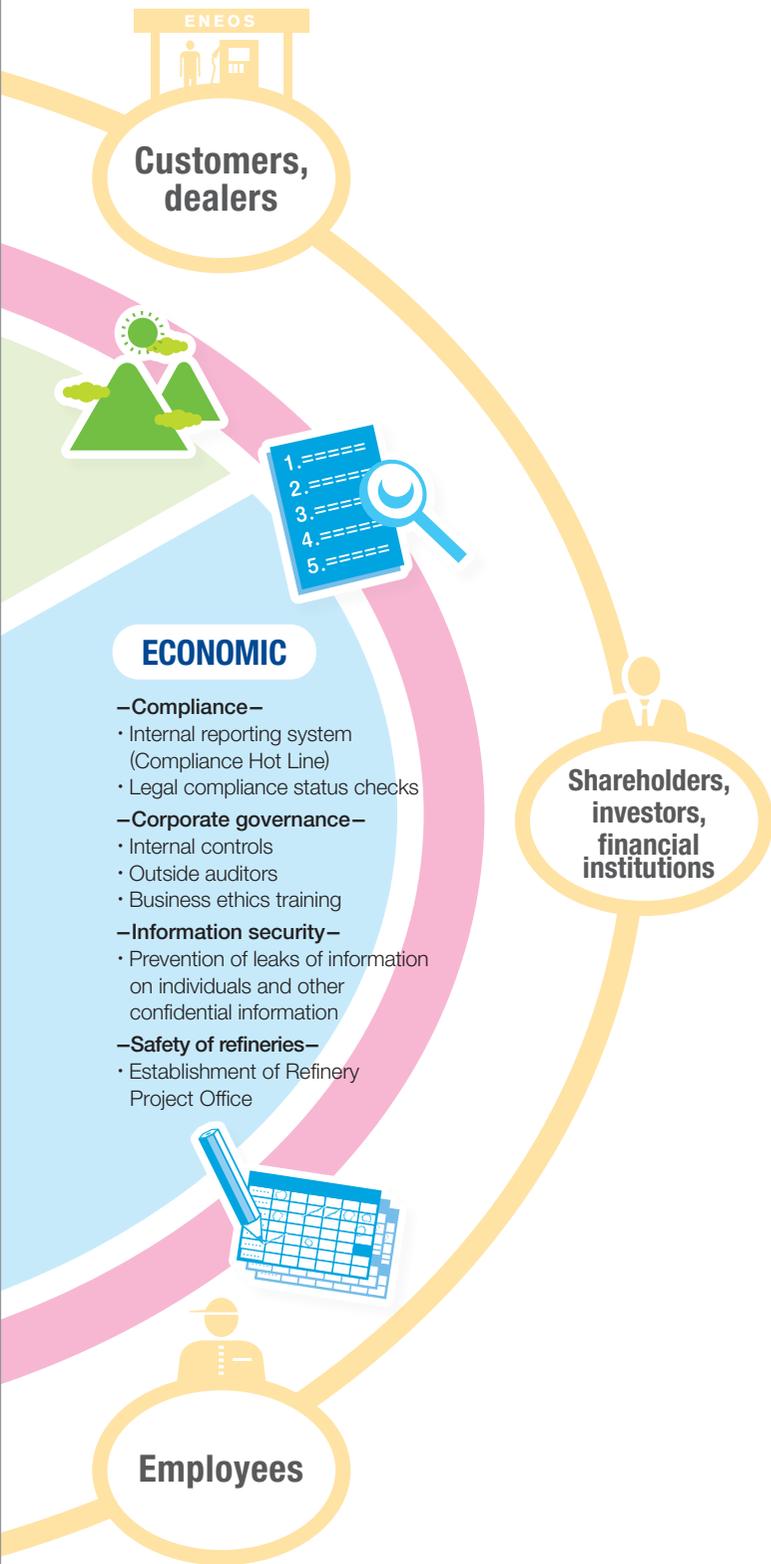
- [1] Protecting the global environment
- [2] Maintaining high ethical standards
- [3] Ensuring safety at refineries

We hope that our stakeholders will read this report, and we welcome frank comments and opinions from those who do. We also invite you to visit our CSR web site, which contains more information about the Group's various CSR activities.

# Overview of Nippon Oil Group's CSR Activities

The Nippon Oil Group is promoting CSR-oriented management as part of its efforts to realize a sustainable society. The Group's CSR activities are divided into three categories to address their environmental, social, and economic aspects.





## Nippon Oil Group Philosophy

### Group Philosophy

#### Your Choice of Energy

Creating the energy future and promoting prosperity and harmony with nature

#### Six Values We Respect

- E**thics
- N**ew ideas
- E**nvironmental harmony
- R**elationships
- G**lobal approaches
- Y**ou

## Fourth Medium-Term Management Plan (FY2010 Targets/Plans)

Return on equity (ROE) : 8%

Ordinary income : ¥200 billion  
(excl. inventory valuation factors)

Planned capital expenditures : ¥850 billion (FY2008–2010)

Net interest-bearing debt : ¥1,650 billion

Net debt-equity ratio : 100% or lower

Environmental goal : Reduce specific energy consumption at refining operations by 20% relative to fiscal 1990 benchmark

## CSR Promotion System

### Nippon Oil Group CSR Meeting

(Chairman: Nippon Oil President  
Members include senior executives of Nippon Oil and the president of each principal Group company)

Compliance Committee

Human Rights Committee

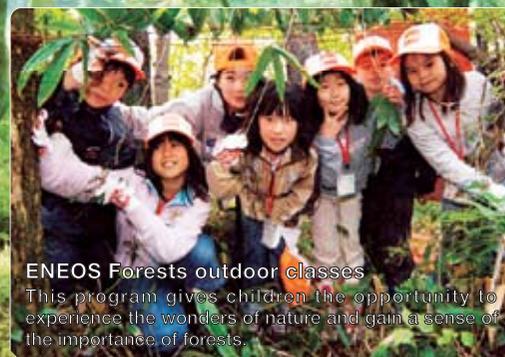
Information Security Committee

Corporate Citizenship Committee

Environment & Safety Committee

Quality Assurance Committee

Head office, Branches, Refineries/Plants, Group companies



**ENEOS Forests outdoor classes**

This program gives children the opportunity to experience the wonders of nature and gain a sense of the importance of forests.

CSR REPORT  
2008

ENVIRONMENT

Protecting the Global Environment

# What we are doing to help prevent global warming

The Nippon Oil Group is playing an active role in efforts to prevent global warming. Our pioneering activities in this area, including taking various actions along each part of the supply chain, have garnered praise from within Japan and overseas.

## The issue of global warming

Global warming has become a major issue and not a single day passes in the TV or newspaper without the news about the issue. For instance, the 2007 Nobel Peace Prize was awarded to former US Vice-President Al Gore and the Intergovernment Panel on Climate Change (IPCC). The G8 Summit held in Toyako, Hokkaido in 2008, where

measures to prevent global warming were discussed as one of the major themes of the meeting. Global warming poses an emerging threat to humanity.

As a supplier of the energy so vital to our daily life, the Nippon Oil Group recognizes the issue of global warming and is taking action to address this problem.

## Realizing “environmental harmony”

We have embraced “environmental harmony” as a part of the Nippon Oil Group Philosophy and we are promoting environmental management in line with the Group Environmental Vision that we have instituted.

### 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.

We formulated the Medium-Term Environmental Management Plan to govern Group actions to prevent global warming over the period fiscal 2008–2010. We are working to reduce CO<sub>2</sub> emissions across all of our business activities.

The key elements of our program to prevent global warming are outlined below:

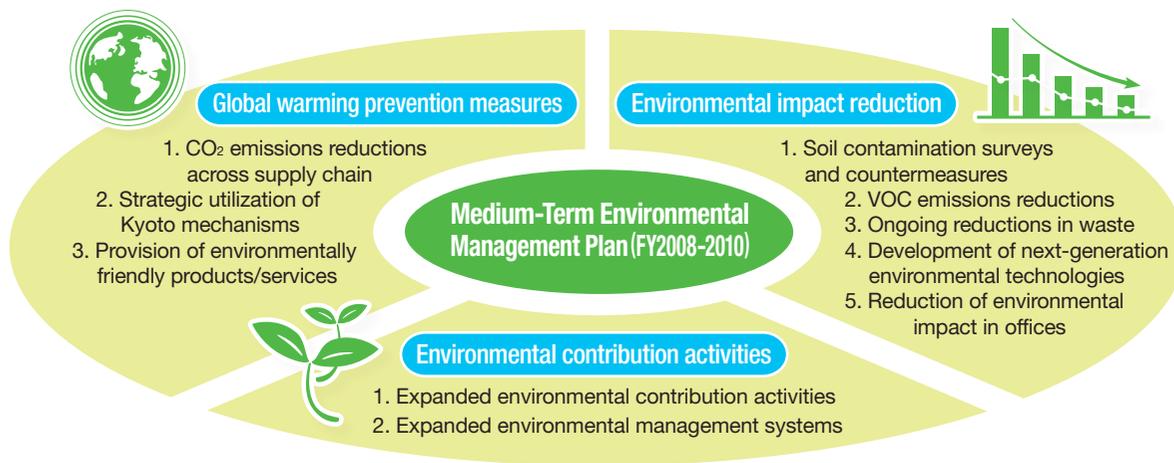
- Establish emissions reduction targets over the entire supply

chain (lower specific energy consumption) and reduce CO<sub>2</sub> emissions through more efficient energy usage

- Obtain emissions reduction credits under the framework of Kyoto Mechanism by reducing CO<sub>2</sub> emissions overseas and promote optimal use of credits in line with Japan’s policy for global warming measures
- Supply environmentally friendly products and services and contribute to CO<sub>2</sub> emissions reductions from energy use by customers

Aside from measures to prevent global warming, the Group is also involved in ongoing activities to reduce environmental impact, including soil contamination surveys and countermeasures and measures to reduce emissions of VOCs (volatile organic compounds) and various wastes. In addition, we are targeting the development of next-generation environmental technologies and looking to supply energy in new forms to prevent global warming. Moreover, as part of our mission to promote environmental harmony, we are engaged in environmental contributions programs that promote initiatives in areas such as environmental conservation and education.

### ● Medium-Term Environmental Management Plan (FY2008–2010)



### As an environmentally advanced enterprise, we are targeting further measures to help prevent global warming.

As a comprehensive energy company, the Nippon Oil Group supplies customers with various types of energy in the form of petroleum products, natural gas, electricity, etc. At the same time, we account for approximately 1%\* of Japan’s total greenhouse gas emissions due to our oil refining and other business activities.

Over the years we have actively stepped up our efforts to prevent global warming. We aim to expand and intensify these various measures based on the Medium-Term Environmental Management Plan (fiscal 2008–2010).

\*Japan’s total GHG emissions=1.34 billion tons (fiscal 2006)  
Nippon Oil Group CO<sub>2</sub> emissions=15.26 million tons (fiscal 2007)[See p.12]



**Sadami Yamanishi**  
Environment Planning Group Manager,  
Environment & Safety Dept.  
Nippon Oil Corporation

## CO<sub>2</sub> emissions reductions at the refining operations

Refining operations generate approximately 80% of the total CO<sub>2</sub> emissions of the Nippon Oil Group. Our main priority is therefore to take measures to improve energy efficiency at the refining operations.

We have established the specific target of reducing the specific energy consumption at the refining stage by 20% relative to the fiscal 1990 benchmark by fiscal 2010.

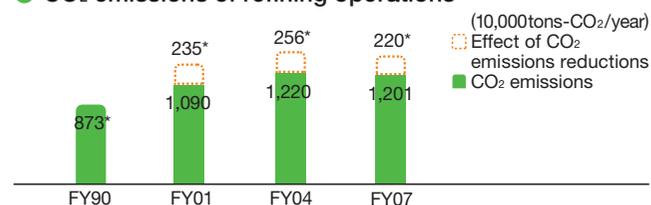
This target, which is significantly higher than the 13% reduction that the Petroleum Association of Japan (PAJ) advocates, demonstrates the commitment of the Nippon Oil Group to taking proactive measures to help prevent global warming. The 20% reduction also represents the first environmental target to be included in one of the Group's medium-term management plans.

### Specific energy consumption of refining operations



Specific energy consumption was 16.6% lower in fiscal 2007 than the fiscal 1990 benchmark (a reduction from 11.71 to 9.77). This improvement was equivalent in effect to cutting CO<sub>2</sub> emissions by 2.2 million tons.

### CO<sub>2</sub> emissions of refining operations



\*Figures are corrected for coefficient adjustments and other factors.

## We plan to prevent global warming by achieving world-class energy efficiency in our refining operations.

We have actively improved the environmental quality of our products by developing sulfur-free grades of gasoline and diesel (defined as having a sulfur content of 10ppm or less) in advance even before the regulation in the area.



**Kazuhiro Ishikawa**  
Refinery Performance Improvement Group  
Technical Service Dept.  
Nippon Oil Corporation

Although removing the sulfur and other moves to raise the environmental quality of fuels does improve the fuel economy of automobiles, which reduces CO<sub>2</sub> emissions, the advanced processes needed to achieve this gain in quality also entail spending additional energy in refining.

In response, we have developed and introduced advanced energy-saving technologies. These include methods of generating power using waste heat from low-temperature processes, which would generally be lost at ordinary production facilities, as well as technologies to liquefy and recover CO<sub>2</sub> using cooling systems that run on liquefied natural gas (LNG). Across all of our refining operations, we are also trying to make gradual gains in energy efficiency by improving production processes and by cutting heat losses from equipment and pipes.

We continue to focus our efforts on reducing CO<sub>2</sub> emissions from refining operations using a variety of means.

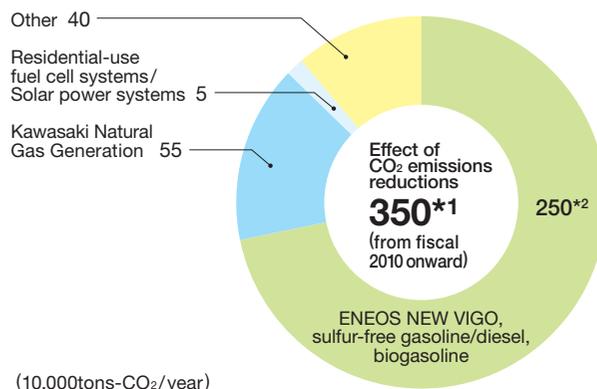
## CO<sub>2</sub> emissions reductions via provision of environmentally friendly products and services

The Nippon Oil Group is working to supply customers with environmentally friendly products and services which lead to global warming prevention at the energy consumption stage by customers.

It is expected that the effect of CO<sub>2</sub> emissions reductions from environmentally friendly products and services supplied by the Group will be equivalent to 3.5 million tons of CO<sub>2</sub> per year\*<sup>1</sup> from fiscal 2010 onward.

\*1. Effects of emissions reductions from fiscal 2010 onward compared to emissions prior to supply of such products and services.

\*2. Projected CO<sub>2</sub> emissions reductions assume adoption of automobiles equipped to use sulfur-free fuels as reported by the Japan Clean Air Program (JCAP). Please refer to the PAJ web site for more details. ([www.paj.gr.jp](http://www.paj.gr.jp))



## ENEOS environmentally friendly products and services

This section introduces some of the environmentally friendly products and services developed and supplied by the Nippon Oil Group.

### ENEOS NEW VIGO: an environmentally friendly premium gasoline

ENEOS NEW VIGO is an environmentally friendly product combining some of the Group's most advanced technologies. As such, it promises to help reduce emissions of CO<sub>2</sub> and other regulated exhaust gases. We were the first company in Japan to supply sulfur-free premium gasoline in 2002. Since we upgraded this fuel in 2005, it has garnered increasing support from customers



as a product kind to drivers, vehicles and the environment alike. Widespread availability of sulfur-free gasoline will enable the increased adoption of direct-injection, lean-burn and other highly efficient engines. The upgraded fuel features a friction modifier to improve fuel economy as well as a new cleaning detergent. The combination of these two agents has yielded one of the most advanced fuels of its kind in Japan with cleaning properties.

Each year consumer surveys show that users regard ENEOS premium gasoline as one of the highest quality fuels in Japan.



**Masaaki Kumano**

Planning Group,  
Marketing Planning Dept.  
Nippon Oil Corporation

### Biomass fuels (biogasoline and biodiesel)



**Kenichi Okamoto**

Fuel Technology Office,  
Research & Development  
Planning Dept.  
Nippon Oil Corporation

Biomass fuels have attracted attention as a possible way of preventing global warming because the plants used to create this fuel absorb CO<sub>2</sub> as they grow. In April 2007, we began trial sales of a biogasoline blended with ETBE\*<sup>1</sup> as a form of bioethanol. By fiscal 2010, the Japanese petroleum industry plans to supply 210,000 $kl$  (in crude oil equivalents) of bioethanol. Furthermore, following a request by the Japanese government, the industry is looking at ways of boosting this capacity to 500,000 $kl$ . For diesel vehicles we have also developed BHD\*<sup>2</sup>, a biodiesel fuel produced

from the hydrogenation of palm oil and other plant oils. In cooperation with the Tokyo Metropolitan Government, Toyota Motor Corporation and Hino Motors, Ltd., we ran a trial program using BHD as fuel for city buses in Tokyo from October 2007 to March 2008. Elsewhere, we are looking to develop technology for manufacturing cellulosic ethanol, a plant-derived biofuel that does not compete with food sources.



バイオガソリン®

\*1. Ethyl tertiary butyl ether    \*2. Bio hydrofined diesel

### Residential-use fuel cell systems

We have been involved in the development of fuel cells for many years, using original technologies that the Group has acquired through hydrogen production and catalyst development technologies derived from its refining operations.

In March 2005, we launched the ENEOS ECO LP-1, a 1kW-rated fuel cell system for residential use, powered by LPG. We followed this up in March 2006 with the launch of the kerosene-fueled ENEOS ECOBOY. Both launches



marked the first time in the world that such fuel cell systems had been commercialized. These fuel cell systems use an electrochemical reaction to generate electricity from hydrogen produced from the fuel and oxygen from the air. At the same time, the heat generated by this reaction is used to make hot water. This design makes the product a highly efficient co-generation system. There are no power transmission losses, and the hot water is stored in a tank. The overall energy efficiency of the system is about 80%, which contributes to a significant reduction in CO<sub>2</sub> emissions.



**Maki Satou**

Fuel Cell & Solar Cell Planning Group  
Fuel Cell & Solar Cell Business Dept.  
Nippon Oil Corporation

## Clean Development Mechanism project for CO<sub>2</sub> emissions reductions (Rang Dong oil field, Vietnam)



On site inspection prior to issue of emissions reduction credits

Japan Vietnam Petroleum Company, Ltd. (JVPC), a subsidiary of Nippon Oil Exploration Limited (NOEX), produces crude oil from the Rang Dong oil field in Vietnam. Previously, the associated gas produced along with the crude oil from the

Rang Dong oil field was flared at the offshore platform. In this project, the associated gas is recovered and supplied for local use, such as to power generation plants, through a sub-sea pipeline, which is expected to lead to 8 million tons of CO<sub>2</sub> emissions reductions over the 10-year period from December 2001 to November 2011.

This project, which has been approved as a Clean Development Mechanism (CDM), received approval in February 2008 for certified emissions reduction (CER) issuance of 4.49 million tons for emissions reductions due to project activity from December 2001 to December 2005. This issuance is not only the largest ever one-time CER issuance approval to date but also the first ever CER issuance in the world resulting from the recovery and utilization of associated gas.

Even after the issuance, the project is expected to continue to receive approval for CER issuances until 2011, which will accumulate to 8 million tons during the 10 years from December 2001 to November 2011.

The Nippon Oil Group independently created, proposed and established the CDM methodology as international rules for this type of project. Currently these rules are being applied globally at other gas recovery and utilization projects. Total annual CO<sub>2</sub> emissions reductions from these projects are estimated at 9 million tons.

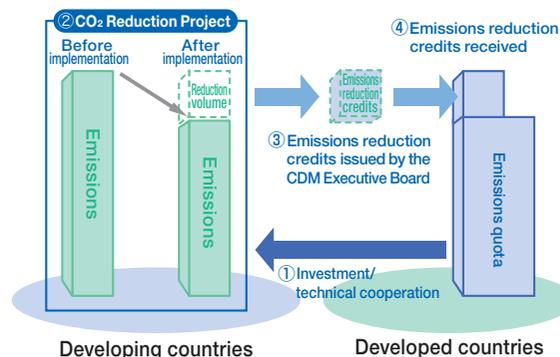
By establishing the international rules for these CDM projects,

the Nippon Oil Group is contributing to efforts to prevent global warming through more efficient energy use in oil production regions around the world.

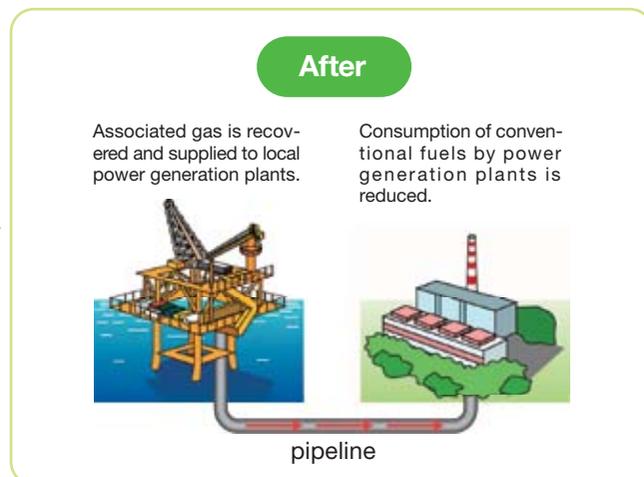
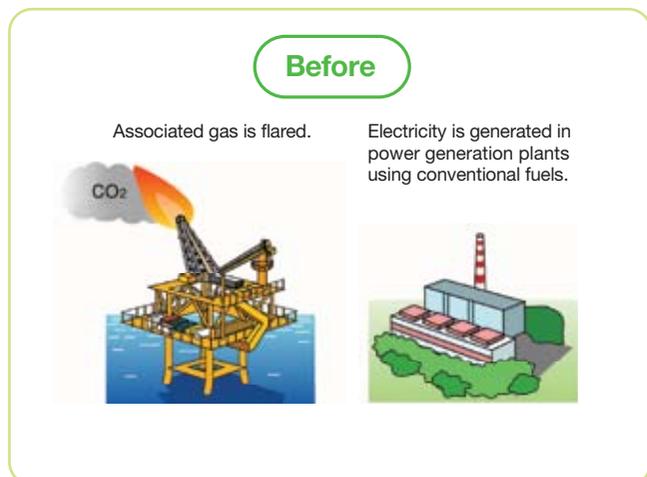


Rang Dong oil field, Vietnam

### How the CDM works



### Associated gas recovery and utilization project at Rang Dong oil field



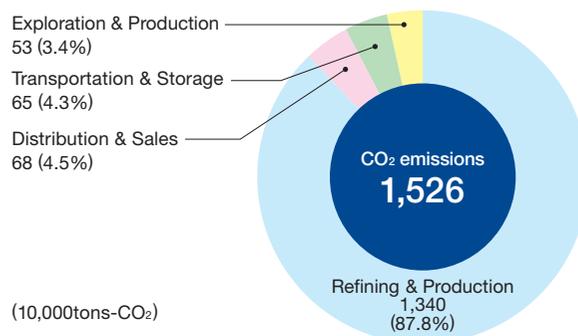
## CO<sub>2</sub> emissions in the supply chain

The Nippon Oil Group is constantly trying to reduce CO<sub>2</sub> emissions along the entire energy supply chain stretching from exploration and production (E&P) to distribution, sales and consumption.

Compared with fiscal 2006, supply chain CO<sub>2</sub> emissions in fiscal 2007 increased by 0.7%. While CO<sub>2</sub> emissions were lower at the E&P stage, increased consumption of energy at the refining and production stage due to the installation of additional petrochemicals manufacturing capacity led to the slight overall increase.

\*CO<sub>2</sub> emissions are calculated based on version 2.1 of the Ministry of the Environment's manual dealing with the calculation and reporting of greenhouse gas emissions by businesses. This includes methane and dinitrogen monoxide.

### ● Supply chain CO<sub>2</sub> emissions in FY2007



	INPUT						Companies involved	OUTPUT			
	FY06		FY07		Change			FY06	FY07	Change	
	Electricity (million kWh)	Fuel*1 (10,000 kℓ)	Electricity (million kWh)	Fuel (10,000 kℓ)	Electricity (million kWh)	Fuel (10,000 kℓ)		CO <sub>2</sub> (10,000 tons)	CO <sub>2</sub> (10,000 tons)	CO <sub>2</sub> (10,000 tons)	
<b>Production &amp; Storage</b>											
Exploration & Production	1	17*2	1	16	0	-1		Nippon Oil Exploration Ltd.	61	53	-8 (-13.1%)
Transportation & Storage	24	21	38	23	14	2		Nippon Oil Tanker Corporation Nippon Oil Staging Terminal Co., Ltd. Okinawa CTS Corporation Shibushi Oil Storage Co., Ltd. Kamigoto Oil Storage Co., Ltd.	59	65	6 (10.2%)
<b>Refining &amp; Sales</b>											
Refining & Production	347*2	499*2	347	501	0	2		Nippon Petroleum Refining Co., Ltd. Nihonkai Oil Co., Ltd. Wakayama Petroleum Refining Co., Ltd. NISSEKI PLASTO Co., Ltd.	1,332*2	1,340	8 (0.6%)
Distribution & Sales	67	22*2	48	24	-19	2		Nippon Oil Corporation	64*2	68	4 (6.3%)
<b>Total</b>	<b>439</b>	<b>559</b>	<b>434</b>	<b>564</b>	<b>-5</b>	<b>5</b>			<b>1,516</b>	<b>1,526</b>	<b>10 (0.7%)</b>

\*1 Crude oil equivalents \*2 Figures are corrected for coefficient adjustments and other factors.

### <Reference>

Consumption (customers)	Domestic fuel oil sales volume (10,000 kℓ)			CO <sub>2</sub> emissions (10,000 tons)*3		
	FY06	FY07	Change	FY06	FY07	Change
		4,812	4,959	147 (3.1%)	12,030	12,446

\*3 Figures refer to CO<sub>2</sub> emissions corresponding to fuel consumed by customers in operating automobiles, factories, etc. This is calculated by multiplying for each type of oil the Group's domestic fuel oil sales volume by the relevant emission coefficient.



# What we are doing to be a company trusted by stakeholders

We are working to fulfill our social responsibilities as a company through the sincere implementation of our Group Philosophy by each and every officer and employee.

## An approach to CSR based on business ethics

### “Ethics” as the foundation of CSR



The Nippon Oil Group regards CSR as fulfilling social responsibilities through business activities based on sincere implementation of the Group Philosophy by each officer and employee.

While high ethical standards are part of the Group’s philosophy, the fulfillment of social responsibilities must also be rooted in a strong sense of ethics. Consideration of the essential nature of things and what is right is a vital part of

trying to cultivate a strong ethical sense, which is based on the willingness to ask questions. We have promoted CSR through the adoption of a constructively critical attitude whereby we constantly question the intrinsic value of daily business activities in the broader context of what society demands.

The Nippon Oil Group has introduced a “case method”-based educational approach to help officers and employees develop better ethical decision-making capabilities and has carried out business ethics training courses, “Business Ethics Café.”

## 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. Two examples used in our training are shown below.

### Case method examples: What would you do?

(1) A service station whose sales are growing receives a complaint from a customer that overly aggressive selling methods are being used. Should the station continue to use the same methods to meet sales targets or make changes to improve longer-term prospects? What would you do?

(2) The refinery is running at full capacity to meet seasonal demand for kerosene, but there are indications of an operating problem of some kind. Should managers continue to keep the refinery operating to produce kerosene, or should they stop the plant to conduct the required inspection in order to prevent an accident or incident? What would you do?

## Lively discussions in “Business Ethics Café”

First held in mid-2007, the “Business Ethics Café” course supplements traditional training on this subject with lectures on business ethics and debates designed to help participants learn how to express clear opinions on ethics-related topics.

Course participants take part in an informal but lively group discussion on business ethics. Using cases from real-life business situations, this discussion is led by Associate Professor Joji Nakaya of the Community Service and Science at the Graduate School, Tohoku University of Community Service and Science, an expert in the field of business ethics. In fiscal 2007, a total of 300 people from Group companies took part in five “Business Ethics Café” training courses.

One of the comments on the post-training questionnaire was as follows: “I learned about the importance of returning to basics by studying the fundamentals of ethics.”

## A new experiment for linking ethics and CSR

“Business Ethics Café” can be viewed as a pioneering experiment in promoting CSR based on ethical education. I am impressed by the fact that President Nishio has reemphasized the importance of business ethics, and that the course was created in a way so that it gives officers and employees alike the opportunity to discuss issues freely. Business ethics is an essential part of CSR activities. This business ethics training is not a one-way discourse, but rather an event where participants must make subjective decisions. I believe that it marks a new development in CSR education.



**Joji Nakaya**  
Associate Professor,  
Community Service Department  
Graduate School, Tohoku University  
of Community Service and Science

## Comments from “Business Ethics Café” participants

### Always asking questions to avoid mistakes at work

The course content was original. We explored various points of view before conducting a five-stage debate to make decisions. After this training, I always ask myself whether I have slipped up or missed anything while I do my job (which concerns shipping safety).



**Yukiko Kondo**  
Marine Group  
Marine Dept.  
Nippon Oil Tanker Corporation

### Applying lessons from training in everyday work

After taking part in “Business Ethics Café,” even in my work at the branch, I am more conscious of the need to ask whether a decision is the correct one or whether a third party might suffer due to any action. We always need to ask, debate, and answer such questions.



**Atsushi Ishikawa**  
Sales Group III,  
Kyushu Branch Office  
Nippon Oil Corporation



Sendai Refinery, Nippon Petroleum Refining Co., Ltd. (NPRC)



# What we are doing to ensure safe and secure operations

We strive to ensure safe and secure operations. From exploration and production to distribution and sales, we make every effort to prevent trouble or disaster and to respond appropriately if such an event occurs.

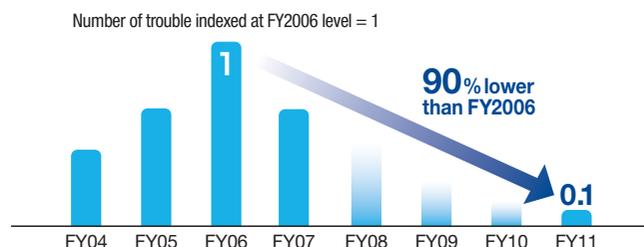
This section introduces initiatives to eliminate trouble at refineries, led by a specially established Refinery Project Office.

## Eliminating trouble at refineries

As an energy supplier handling inflammable materials, the Nippon Oil Group places top priority on safety across all business activities. Any trouble or disaster has the potential not only to affect customers, suppliers, and local communities, but also to have a grave environmental impact. Any trouble could also have serious financial consequences for the Group's business. Boosting the profitability of core operations is one of the key themes of the Group's Fourth Medium-Term Management Plan. Eliminating trouble at our refineries is an important part of this objective because maintaining safe and secure operations on an ongoing basis is a source of competitiveness. Unfortunately, recent years have seen a succession of trouble of varying severity occur at refineries operated by Nippon Petroleum

Refining Co.,Ltd. (NPRC). Responding to this critical situation, NPRC has established the Refinery Project Office to oversee refinery restructuring with the aim of eradicating trouble.

### ● Trouble at refineries



## Initiatives of the Refinery Project Office

The Refinery Project Office was established with the goal of reducing by fiscal 2011 the number of incidents necessitating a production stoppage by 90% relative to the fiscal 2006 benchmark. The Office's first task was to analyze approximately 130 incidents that occurred at NPRC's seven refinery facilities between October 2004 and March 2006. This study examined the problems caused by each incident from a management perspective (in terms of maintenance, operation, and renovation) and identified the actual underlying causes of each problem.

This analysis showed that the causes of facility-related trouble did not lie disproportionately with any specific facility operation, but did identify the following common problems relating to all facility operations:

- Vague operating standards
- Insufficiently thorough operating processes
- Inadequate technical skills

The Project Office proposed a set of measures to prevent further trouble based on these results. These measures

consisted of three operational restructuring pillars plus a related program for base reinforcement.

Each refinery has since begun promoting measures to prevent trouble based on these proposals. The total number of incidents in fiscal 2007 was 30% lower than that recorded in the previous year.

**Members of the Refinery Project Office**



## Measures to Prevent Trouble – Proposals by Refinery Project Office –

### Three operational restructuring pillars for structural improvements

#### ① Clarification and observance of operating standards

- Eliminate vagueness or ambiguity in standards for facility-related engineering and inspections to ensure trouble-free maintenance.
- Clarify and adhere to operating standards and procedures for all equipment.

#### ② Enhanced quality through standardized operating processes

- Focusing on turnaround standardize improvement procedures for maintenance and operation to enhance quality and facilitate improved process management.
- Prevent problems by insisting on preparation of manuals, even for custom-ordered equipment and re-engineered processes.

#### ③ Upgrading of technical skills

- Institute network forums for personnel in charge at each refinery during each turnaround period to discuss issues related to pillars ① and ② to improve standards while upgrading technical skills.
- Increase level of detail of maintenance plans to cover individual equipment parts to achieve significant improvements in degree of upkeep precision.
- Create new training programs for staff and operators.

### Base reinforcement to facilitate operational restructuring

#### Measures to enhance quality of operations and reduce underlying risks

- Improve maintenance through stronger links with engineering subcontractors
- Reduce trouble response times through activities to cut frequency of smaller on-site trouble
- Eliminate underlying risks by re-checking past facility and operational changes
- Detect problems early with 5S activities (*seiri, seiton, seiso, seiketsu, and shitsuke*)
- Improve management systems for maintenance and operations during turnaround periods
- Promote ongoing safety management by creating safety management systems

## Activities to promote operational restructuring (Marifu Refinery)



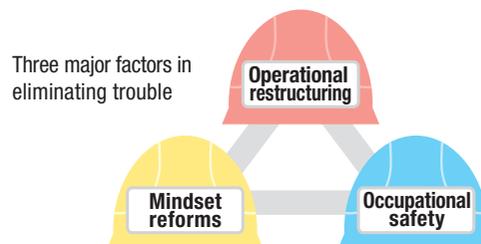
Based on the proposals made by the Refinery Project Office, all of the refineries within NPRC are currently re-evaluating and engaging in discussions as part of ongoing

efforts to promote various restructuring.

For example, at the Marifu Refinery, three pillars of "operational restructuring," "mindset reforms," and "occupational safety" are instituted. In addition, a total of 35 cross-divisional working groups are organized

aiming at "operational standardization" and "early problem detection."

### ● Marifu Refinery restructuring project



- **Common participation in activities by all site employees**  
Foster greater unity by appointing all staff to at least one working group.
- **Appointment of young leaders**  
Appoint young leaders to develop human resources and relieve the burden on group managers and section supervisors.
- **Regular reporting to senior management**  
Ensure all working groups report to senior site management at least once a month to conduct activities with shared understanding.
- **More sharing of information**  
Set all onsite PCs to connect automatically to a portal site on boot-up to facilitate the sharing of information such as working group activity status.

**We are persevering with operational restructuring as a serious program for protecting our colleagues and workplaces.**

Losses caused by safety trouble can have grave economic and social effects, and physical damage that may be caused cannot be undone. That is why we are taking these operational restructuring activities seriously and acting tenaciously as a program of action for protecting our colleagues and workplaces.



**Takuji Sugimura**  
Technical Service Group,  
Marifu Refinery,  
Nippon Petroleum Refining Co., Ltd.

### ● Example of operational restructuring progress status (formulation/revisions of measures/procedures)

	Measures/procedures		FY06	FY07					FY08	3-year total
	Name	Number			Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.		
Distillation & Cracking Team	Operating measures	6		2	1	1	1	1	4	6
	Operating procedures	26	5	21						26
	Process measures	3			1	1	1		3	3
	Other	1						1	1	1
	Subtotal	36	5	23	2	2	2	2	8	36
Reforming & Desulfurizing Team	Operating measures	11		1	2	3	2	3	10	11
	Operating procedures	53	23	16	3	3	4	4	14	53
	Process measures	1						1	1	1
	Subtotal	65	23	17	5	6	6	8	25	65
Power & Utilities Team	Operating measures	1				1			1	1
	Operating procedures	21	5	6	2	2	3	3	10	21
	Subtotal	22	5	6	2	3	3	3	11	22
Oil Blending & Transfer Team	Operating measures	1				1			1	1
	Operating procedures	77	33	21	5	6	6	6	23	77
	Process measures	3				1	1	1	3	3
	Subtotal	81	33	21	5	8	7	7	27	81
	<b>Total</b>	<b>204</b>	<b>66</b>	<b>67</b>	<b>14</b>	<b>19</b>	<b>18</b>	<b>20</b>	<b>71</b>	<b>204</b>
	<b>Cumulative</b>		<b>66</b>	<b>133</b>	<b>147</b>	<b>166</b>	<b>184</b>	<b>204</b>		
	<b>Progress (%)</b>		<b>32</b>	<b>65</b>	<b>72</b>	<b>81</b>	<b>90</b>	<b>100</b>		

\*Fiscal 08 values are estimates.

## Proposal and parallel development of safety-related solutions

In cooperation with related departments and each operating site, the Refinery Project Office is undertaking the activities outlined below to try to prevent similar types of facility-related trouble as have occurred at NPRC and other companies.

- Identification of causes of specific problems and proposal of countermeasures
- Parallel development of safety-related solutions by internal disaster-prevention study groups (to implement the same solutions for similar facilities and equipment across each Group refinery)
- Publication and sharing of information in study group materials via internal network

Based on the above, to ensure progress is made across the Group, the Refinery Project Office has compiled a list of measures for preventing similar trouble.



## Fiscal 2007 actual case of trouble/solution

### <Overview of trouble>

In May 2007, during the production start-up at the Osaka Refinery following regular maintenance, the application of heat to a 600-meter stretch of heating pipe carrying asphalt caused damage to two pipe flanges, resulting in a leakage of asphalt.

### <Causes and solution>

The leak was caused by an increase in pressure inside the heating pipe due to the expansion of fluids, which was the result of asphalt left inside the pipe being heated up during turnaround. An internal study group including experts in the field was set up to look into this trouble and propose a set of measures for parallel development to ensure that such a leakage would not occur again.

#### --Establishment of operating procedures

An operating procedure manual was created for the pipe-heating process, including suitable checks at the beginning and end of each procedure within the overall process.

#### --Measures to ensure early detection of leakages

An early-warning system was created to detect any irregularities due to leakages from the changes in tank levels. To reinforce monitoring during operating processes, we also revised and standardized the equipment targeted by patrols, as well as patrol frequency and checklists.

## We are working with refineries to entrench a true culture of safety.

Our operational restructuring at NPRC refineries are now in full swing. The twin goals are to create operating structures that prevent trouble and to entrench a culture of safety. Unfortunately we have had a series of trouble of varying severity at our refineries in recent years. We view this as a critical situation, and we have initiated restructuring to try to eradicate trouble. These operational restructuring involve everybody working onsite at our refineries, from the general manager down.

Specifically, we are focusing on four areas: revision of operating measures to ensure that operational processes do not lead to any trouble; full coordination of preparation for turnaround periods for refineries across the NPRC; employee training and development to upgrade and pass on technical skills; and concerted efforts to significantly reduce underlying risks at NPRC refineries.

The job of our Project Office is to support ongoing operational restructuring efforts across all of our refineries. After the project team was established, we spent the first six months analyzing all facility trouble and other safety-related

issues at the refineries so that we could propose a set of measures to prevent trouble. We analyzed a total of about 130 cases and proposed a set of preventive measures based on the three operational restructuring pillars(see p.16). Now we are steadily implementing these measures.

The life of this Project Office is limited to 30 months. During this time, our goal is to change the structure of our refineries to create essentially trouble-free facilities. Our main jobs are to oversee restructuring implementation, to propose operational restructuring for the refineries, and to create parallel development programs so that the lessons learned from past trouble are applied across all NPRC refineries. We are working with refineries to entrench a true culture of safety within NPRC.



**Hiroshi Ono**

Executive Officer,  
General Manager of Refinery Project Office,  
Nippon Petroleum Refining Co., Ltd.

# An Independent Opinion

Attorney-at-Law Tadashi Kunihiro presented a talk entitled “CSR from a Legal Perspective” at the second meeting of the Nippon Oil Group CSR Meeting in fiscal 2007.



## Tadashi Kunihiro

Tadashi Kunihiro registered as an attorney-at-law in 1986 after graduating from the University of Tokyo Faculty of Law. Mr. Kunihiro practiced at the law firm of Kohei Nasu (currently a Japanese Supreme Court Justice) during 1986-1990, involved mainly in litigation matters. He later resided in the United States from 1990-1992. Upon his return, Mr. Kunihiro practiced at a law firm specializing in international law before opening Kunihiro Law Offices in 1994. His offices relocated to the current Yurakucho site in 2000, and the firm name was changed to T Kunihiro & Co., Attorneys at Law.

Compliance needs to be understood in the context of changes within society.

Compliance is a matter of managing risks to stay ahead of the times. By keeping a careful eye on trends in society, it is possible to hone a corporate sense of legal risk in order to avoid problems relating to violations of antitrust legislation or of competition laws targeting instances of bribing foreign officials – both of which have been in the news of late. For an international company such as Nippon Oil that professes to be an integrated energy firm, developing an acute sense of legal compliance risk is not only necessary, but also a likely source of added value.

## CSR and risk management

CSR is about companies fulfilling their responsibilities as members of society in the many ways that they address issues such as the environment and employment. However, as recent examples of corporate wrongdoing have well illustrated, we can also view CSR as a form of risk management from the perspective of what society demands of enterprises. Accurate public disclosure of information is fundamental to corporate activities. Society will simply not tolerate companies adopting the moral rationale that false or misleading disclosure is permissible so long as no actual harm is caused thereby. What society demands is the evidence and information to judge whether or not an enterprise can be trusted. To fulfill this demand, companies must continually communicate the truth to the public. Thus, for Nippon Oil, the task is one of working to convince society that the firm is fully sincere in its desire to disclose any problems as and when they occur, and to tackle these honestly without covering up information.

While compliance is an essential part of risk management, just narrowly obeying the law is not sufficient in this day and age. Companies must also manage those risks that are relevant to society based upon business ethics.

Nippon Oil is unusual among Japanese companies in having adopted a highly original approach to business ethics training. I hope that you will continue to take steps that seek to resolve CSR-related issues from the perspective of stakeholders.

## Risk management: staying ahead of the times

Many of the recent examples of corporate wrongdoing in this country were caused by a seeming unawareness of the many ways in which social consciousness in Japan has changed.

## Internal controls are risk management

Turning to the current efforts of many Japanese companies to create internal control systems, I think that spending hundreds of millions of yen to create documentation, but all without asking the basic question of what truly needs to be established, is bound to result in a mismatch with what the markets and investors really want.

Internal controls are entirely concerned with risk management and nothing else. The key is to grasp this essential truth and then focus on the main points efficiently. In the case of Nippon Oil, I think a sensible approach to internal controls would be to study the many business-related risks at each stage of its long supply chain, which stretches from exploration and production all the way to distribution and sales.

## CSR is all about management

At Nippon Oil, you will position CSR centrally as “the implementation of our Group’s philosophy.” This requires that you accurately assess what society demands by communicating with stakeholders. Having done that, you must then consider how to provide society with what it demands and take appropriate actions as required. In the context of risk management, this means adopting preventive measures to tackle anticipated risks and being ready to take swift and serious action when accidents or other problems happen.

I think that you should continue to act in line with your current stance, which treats CSR as being all about management and an integral part of business strategy. Not only is this a chance to demonstrate that Nippon Oil is a leading company, but it is also a critical part of earning society’s trust. What’s more, the steady accumulation of positive action on the CSR front will ultimately, over time, help to boost your competitiveness as a company.

# CSR Initiatives in Response to Stakeholder Feedback

The table below outlines some of the CSR-related initiatives undertaken by the Nippon Oil Group in response to opinions and comments expressed by stakeholders through the reader questionnaire attached to the CSR Report 2007 and via the CSR web site.

Opinions and suggestions	Nippon Oil Group response
I would like to see more examples of how you have incorporated customer feedback into your business.	We have added a new section to the CSR web site with several specific examples of how we have improved operations based on customer feedback.
I hope that ENEOS service stations are able to assist local communities that suffer damage from natural disasters.	The number of service stations specially equipped to supply fuel after a major earthquake was 581 at the end of March 2008. We plan to raise this figure to 800 by the end of September 2008. We have also signed agreements with local governments around Japan pledging the cooperation of ENEOS service station personnel and facilities in providing rapid assistance to victims of natural disasters.
I gather that Nippon Oil is involved in a CDM project in Vietnam to reduce CO <sub>2</sub> emissions, but the details were rather difficult to understand.	Our CSR web site was revised in February 2008, featuring upgraded CDM-related content with photographs and video contents to make this topic more easy to understand.

## Corporate and Group Overview

Company name : Nippon Oil Corporation  
 Founded : May 10, 1888  
 Representative Director, Chairman of the Board : Fumiaki Watari  
 Representative Director, President : Shinji Nishio  
 Capital : ¥139.4 billion  
 Nonconsolidated net sales : ¥6,706.4 billion (FY2007)  
 Consolidated net sales : ¥7,524.0 billion (FY2007)  
 Number of employees : 2,350 (March 31, 2008)  
 (nonconsolidated basis)  
 Number of employees : 12,697 (March 31, 2008)  
 (consolidated basis)

### 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 (Nippon Petroleum, Koa Oil and Tohoku Oil) merged, creating Nippon Petroleum Refining Company, Ltd. Company name changed from Nippon Mitsubishi Oil Corporation to Nippon Oil corporation

## Financial Highlights

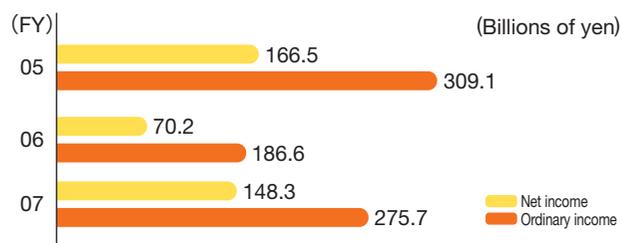
Please refer to the FSA securities filings, shareholder communications and other IR materials published on our web site for details of earnings, other financial data, and the Fourth Medium-Term Management Plan.

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

### Consolidated net sales



### Consolidated net income and consolidated ordinary income



### Consolidated return on equity (ROE)

FY05	FY06	FY07
16.0%	5.9%	11.8%

# NIPPON OIL CORPORATION

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