

Corporate Management with Integrity

誠実な企業経営の継続

Steadfastly fulfilling social responsibilities under a transparent and functional governance system. That is the foundation of corporate integrity and any business activities.

To Materialize the Management Vision

It would not be an exaggeration to say that without corporate management with integrity, the continued existence of the Cosmo Oil Group, and certainly the realization of its management vision, would not be possible.

Corporate management with integrity requires unrelenting efforts. The Cosmo Oil Group strives for continual improvements by establishing transparent and functional governance and operational systems.

Furthermore, we make continued efforts to improve our organizational systems and formulate implementation plans to carry out our social responsibilities in a steadfast manner, while striving to further heighten the awareness of each company staff.

Managing Director's Voice

Naomasa Kondo

CSR Awareness Infused throughout the Group and Implementing CSR on an Individual Basis

What is the Cosmo's Concept of CSR?

As long as we are a corporate citizen, we must pursue both the objective of "securing stable profit base" and "fulfilling our social responsibilities". It is the Cosmo Oil Group's understanding that group-wide efforts to achieve these objectives in cooperation with stakeholders can lead us to enhanced corporate value. This is the basic CSR vision which the Cosmo Oil Group pursues.

How will we realize CSR?

A first step is to position CSR as a top priority within the management plan. In other words, CSR must be officially acknowledged in the "law" and the "code of conduct". Second, a system must be established. Not for Cosmo Oil alone, but one in which the entire group can feel a sense of unity and shared awareness. While we are a group of diverse companies specializing in different areas of business with distinct corporate cultures which must be respected, a larger partnership of companies with a shared objective can trigger a synergetic effect that will help to cultivate the foundation for CSR in a positive direction. The third step is implementation and verification. It is my hope that not only the top management of the affiliated companies lead by example, but also long-time and new company staffs, even temporary workers and suppliers raise their own CSR awareness and act accordingly. To that end, we are distributing this publication, Sustainability Report 2005, to all of our group company staffs. For all of you who are taking time to read this report, I look forward to hearing your opinions when you finish reading.



Naomasa Kondo
Managing Director (In charge of CSR)

Cosmo Oil Group's CSR

Two Perspectives on How to Engage in Social Responsibilities

All business activities entail social responsibility. And all business activities are the combined sum of the efforts of each company staff working at their job sites. Key to the fulfillment of social responsibility is each company staff's understandings of and practical implementation of CSR. We propose the following 2 perspectives whereby our company staffs think about social responsibility in their everyday work.

- 1) A basic perspective: To do what should be done, avoid things which should not be done, avoid wrongdoings and accidents, minimize the negative effects where accidents actually occur.
- 2) An added value perspective: To actively strive to fulfill the needs of various stakeholders, become a more attractive corporate group, and live in harmony with and develop along with society.

Implementation of CSR — Consolidated Plan and the Efforts Made by the Affiliated Companies and Production Sites —

With reinforcement of CSR added to the basic policy of the Consolidated Medium-term Management Plan for Fiscal 2005, the direction which the entire group should follow and the priority efforts were clarified in the plan, and they have been put into action accordingly. Yet, CSR has its basis on how each company staff could act in accordance with social responsibilities at the workplace, and therefore, the main responsibilities of each

of company staffs should differ slightly depending on a type of business characteristics and work they are engaged in. With this complex nature of CSR in mind, the affiliated companies, production sites, and departmental units are beginning to establish and put into action their own policies, systems, and implementation plans in addition to the Consolidated Medium-term Plan prepared for the entire group.



Compliance

For the Cosmo Oil Group to continue “corporate management with integrity” and fulfill its social responsibilities, all of its company staffs must regard compliance as “a given” and ensure full compliance throughout the course of their daily work. In the Cosmo Oil Group, compliance connotes not only complying with all social codes such as laws and the “Cosmo Oil Group Corporate Activity Guideline”, but an individual sense of conscience that is requisite if the group is to contribute to a sustainable society.

It is our understanding that even if compliance can be effectively promoted by the “system” coordination such as the evaluation of the work flow, business audit, risk management, at the heart of compliance lies an individual sense of ethics and morals.

The Cosmo Oil Group reevaluates and works to improve its “systems” on a regular basis, and the Corporate Ethics Committee serves as the core organization of the Group’s efforts to promote and implement compliance.

Cosmo Oil Group Corporate Ethics Committee

The Corporate Ethics Committee (Chairperson: President) that reports directly to the Board of Directors was established with the objective of maintaining and implementing the Management Vision and the Activity Guideline, and infusing awareness about compliance. In realizing these objectives, the Corporate Ethics Committee formulates a policy and implementation plan every year, and the Committee’s performance is reviewed by the Board of Directors.

Cosmo Oil Group Corporate Activity Guideline

The Corporate Activity Guideline is a compilation of codes of conduct that must be complied with a variety of areas and observed at every stage of business activities. The Corporate Activity Guideline applies not only to the directors and company staffs of the Cosmo Oil Group, but also to its temporary, seconded, contract, and part-time company staffs.



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Promoting Compliance

Placement of Staff Responsible for Promoting Corporate Ethics

The department managers, office managers at our company, and the Presidents of our affiliated companies are all in charge of promoting corporate ethics and compliance in their respective workplaces. These officers promote corporate ethics and compliance in their respective workplaces.

Establishment of the Cosmo Oil Group Corporate Ethics Consultation Helpline

In April 2003, we established a consultation service for receiving inquiries from both inside and outside of our company concerning any legal or ethical issues related to our company’s business operations. In order to ensure that those with inquiries do not feel disadvantaged in any ways, their anonymity is guaranteed and we began offering consultation services provided by an outside expert in Fiscal 2004.

Infusing Awareness

In addition to compliance trainings at all of our production sites and trainings that are in line with internal training programs, we also conduct an annual survey to measure the level of employee staffs’ understanding on compliance. Also, the Activity Guideline has been distributed not only in Japanese, but in English and Arabic as well. We plan to issue a textbook for educational purposes in Fiscal 2005.

Corporate Governance

As the foundation on which to realize “Corporate Management with Integrity”, the Cosmo Oil Group has structured its corporate governance system based on compliance. For the improvement of transparency and efficiency of our management, we have adopted an auditor based system of governance, we have clearly separated the decision making arm of management from the execution arm of management, and strived to improve the internal audit function as one that is independent from business operations and management.

Board of Directors

The Chairman, President and all Directors and Auditors attend the Board of Directors. The Board of Directors manages and supervises business, and also serves as the supreme decision-making body.

Executive Officers’ Committee

The Executive Officers’ Committee was introduced in July 2004 for the purpose of reinforcing corporate governance. The Committee, chaired by the President, is attended by all Officers at the managing director level and auditors. All decision-making concerning business management takes place at these Executive Officers’ Committee.

Executive Advisory Council

Newly established in July 2004, the Executive Advisory Council deliberate the performance evaluations submitted by the Board of Directors, and the proposals submitted by candidates for Director and Auditor. Four meetings have been held thus far.

Internal Audits

Cosmo Oil has established a department (the Audit Office) specifically designed to conduct internal audits. The results of the internal audits are reported to the top management. Feedbacks are then sent to corresponding departments, and they are supposed to promptly implement mitigation measures. The Consolidate Medium-term CSR Management Plan starting in Fiscal 2005 includes as one of its objectives the strengthening of the internal audit function of group companies, and steps are being undertaken to achieve the objective. Cosmo Oil has also incorporated CSR related themes into the ad-hoc set of audit items, and internal checks are scheduled to be conducted on their progress status.

The Cosmo Oil Group intends to continue formulating the corporate governance system that can effectively respond to changes in a social environment and business plan, as has been the case.

Risk Management

Risk management is also a factor of paramount importance in the course of materializing “Corporate Management with Integrity”. Following the identification of “risks” that lie inside and outside the company that can cause negative impacts on stable profit base and social responsibilities, the top management evaluates the extent of the risks and measures are implemented accordingly to avoid or minimize such negative impacts.

Risk Management Activities

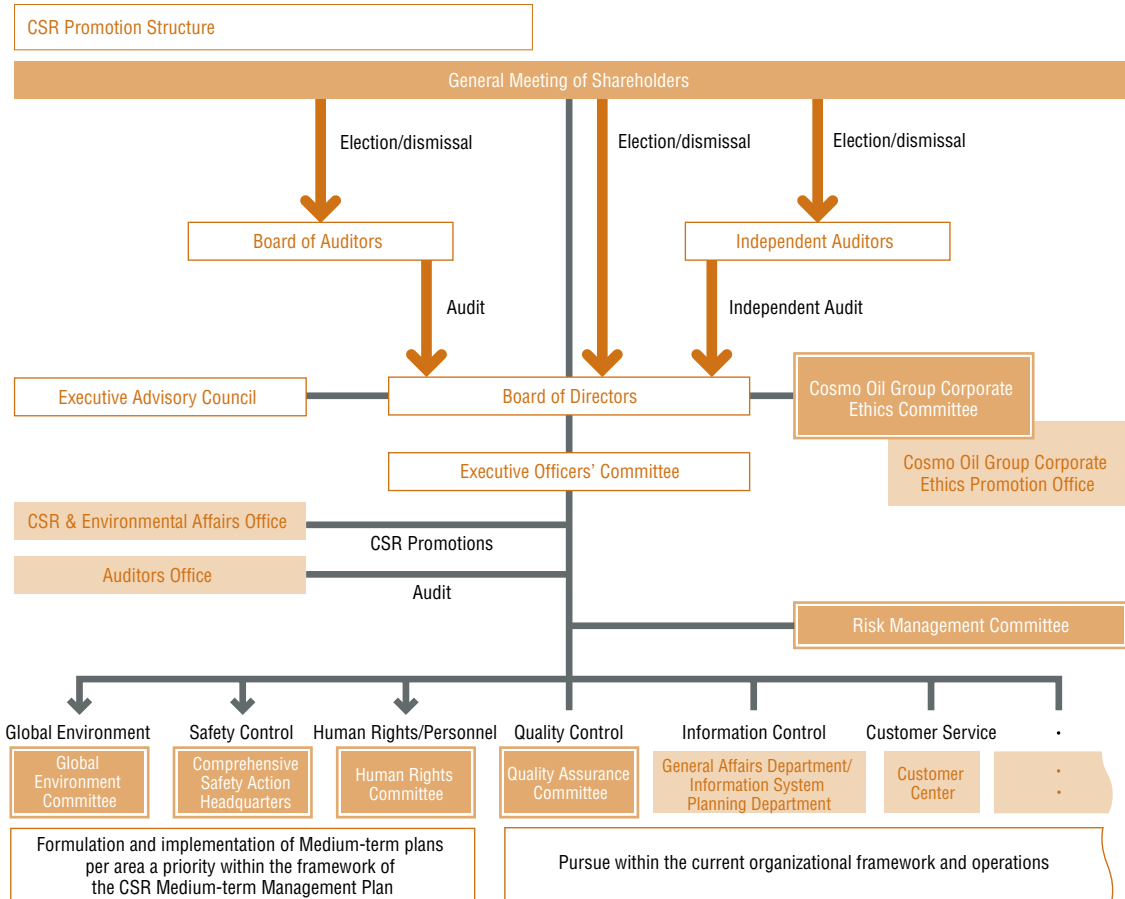
Since Fiscal 2003, Cosmo Oil has implemented a company-wide management cycle of risk identification, analysis, response, monitoring and evaluation on a yearly basis. To date, we have not only made systematic improvements to the internal rules, but also conducted an investigation on unforeseen events and made structural improvements. In Fiscal 2005, we set the introduction of a self-management type of risk management activities as an objective of the Consolidated Medium-term CSR Management Plan.

Risk Management Committee

The Risk Management Committee was established in July 2005 for the purpose of further improvement of the effectiveness of risk management, and group-wide risk evaluation and implementation of appropriate measures.

Thorough Awareness of Risk Management

In Fiscal 2004, we held seminars and simulation training for the board members concerning potential risk, taking into consideration the impact and frequency on the company. In the future, we would like to implement educational and training programs that are specifically designed for different career levels as an effort to nurture corporate culture that is responsive to the risks at the management and operation level.





✦ Maintaining Product Quality

In order to provide products that satisfy needs of customers and society such as product safety, less environmental impacts and user friendliness, product quality policy is clearly defined in "Chapter 1 of the Corporate Activity Guideline (relations with customers and users)". Additionally, in an effort to improve product quality and earn trust from customers, we actively conduct R&D for the quality development, while cross-department product quality assurance system was introduced.

Activity Guideline

- To develop and secure the continuous, stable provision of products and services in terms of quality/price/safety/environmental conservation, and so forth.
- To attach great importance to the maintenance of product quality and safety throughout the course of product research, development, manufacturing, storage, transportation and sales.

Quality Assurance System

To attain smooth execution of quality assurance in the long run, the Quality Assurance Committee was established at the headquarters office as a decision making body whose functions include the quality assurance policy/plan/other related matters. In order to implement functional and efficient quality assurance, the Quality Assurance Coordination Committee was established and quality assurance meetings held. To be more specific, a consistent quality management has been implemented according to a policy set by the Committee, at the stage of product research, development, manufacturing, storage, transportation and sales. With regard to fuel oil provided by the Cosmo Oil Group, we have issued a Product Specification with 3 classifications in accordance with customer attributes.

ISO Certification at Refineries

By requiring the 4 refineries of the Cosmo Oil Group for its major products ISO9001 accreditation, the international standard for quality management systems, we are able to implement a sustainable, objective, and transparent quality assurance program.

✦ Enhancing Awareness among Company Staffs

Only when each company staff develops CSR awareness and reflects CSR-related thinking in daily business operations can we say as a corporate group that "we are fulfilling our social responsibilities". What is meant by "company staff" here is not only the directors and company staffs, but all individuals who come into contact with our customers, suppliers, shareholders and other stakeholders. Below are some of the efforts that the Cosmo Oil Group is taking in order to heighten awareness of CSR among its company staffs.

Personnel Training by Career Level: Until now, we have conducted our training programs by subject area such as compliance or environmental measures. We reorganized our training programs from the perspective of CSR, and began offering in a comprehensive training program in Fiscal 2004.

Internal Company Bulletin: In every issue, we have published articles specifically addressing CSR with the goal of explaining CSR in a way that is easily understandable to all readers.

Meetings: Not only is it important to have an idea of CSR, but it is of even greater importance to be able to understand it and voluntarily act on it. In moving forward with the Consolidated Medium-term CSR Management Plan, we strive to hold as many discussions as possible in the offices and the workplace in order to further promote CSR activities at each workplace.

Incident and Recurrence Prevention

The Cosmo Oil Group strives to ensure compliance and improve transparency of its business operations in an effort to fulfill its social responsibilities and live in harmony and symbiosis with society. Yet, it is regrettable that our business operations caused incidents that led to social concerns. The Cosmo Oil Group is committed to investigating the causes, cultivating greater awareness among all of our company staffs, implementing capital investment, to name a few, as a way to prevent recurrence.

The Chiba Refinery Oil Spill

On May 12, 2005, a portion of the oil that leaked from the manufacturing facility at the Chiba Refinery spilled into the ocean. It is estimated that the amount of the spill was up to approximately 60 liters.

Response Measures

Once we were able to confirm that the oil that spilled into the ocean left films of oil between the Yoro River riverbank and river mouth that faces the Tokyo Bay drain outlet, we extended the oil boom to prevent further spreading, and implemented an oil recovery operation. After obtaining permission from the relevant authorities the following day, we removed the oil boom and completed our operations.

Causes

On the day of the accident, the production facility that was the source of the spill was in the midst of executing a water drive procedure for removing the residual oil in the machinery after suspending operations in preparation for its regular maintenance routine (when industrial water is run through the machinery, and the residual oil in the machinery is pushed out by the industrial water and collected into a tank). However, the amount of water being used within the facility increased suddenly, then the water pressure of its industrial water declined, the residual oil in the machinery flew backwards into the industrial water supply, and leaked into the wastewater.

Prevention Measures

Measures to Prevent Backward Flow into the Industrial Water Supply

- 1) The water driving operation was superceded by a method that uses a pump for increasing water pressure, and a portion of the piping that connects the oil supply and the industrial water supply was removed. Cutting one supply off from the other will prevent further backward flow of oil into the pipes that supply industrial water.
- 2) For the water driving operation, the size of the orifice flowmeter for the industrial water supply was reduced to an appropriate size so as to protect the pump.

Measures to Prevent Spills from the Tokyo Bay Drain Outlet

- 1) Oil recovery unit was permanently installed at the guard basin*¹ so that in the event of another oil spill, oil recovery can be executed without delay.
- 2) In order to allow for faster extension of the oil boom, the storage location of the oil boom was moved to a location closer to the Tokyo Bay drain outlet.

Implementation of Training Programs

With the lessons learnt from the recent accident in mind, we make an effort to revise relevant operational standards and document the important points which could be utilized for education and notification in the safety training programs. It is also part of our efforts to conduct the field exercise using materials and equipment for oil spill prevention so as to conduct swift actions.

*1 A wastewater plug used for stabilizing the flow of wastewater and temporarily collecting wastewater.

Unauthorized Usage of the "Cosmo the Card"

On October 29, 2004, we received notification from one of the companies in charge of providing handling services for the "Cosmo the Card" that a company staff was involved in an unauthorized usage of the cards. We considered this a serious matter and established an Investigative Task Force comprised of attorneys (including Attorney Yasushi Murakami, and headed by Managing Director Naomasa Kondo) on the following day, October 30th. With the cooperation of an external investigative support service specializing in unauthorized transactions, a full-scale investigation was conducted, and the following facts were discovered.

Description of Unauthorized Usage

A staff of the company illegally used the cards that were returned to the card center without being received by the members because of their absence or unspecified address among other reasons. It followed that the staff used the cashing service to obtain cash.

Scope of the Unauthorized Usage of the "Cosmo the Card"

As a result of the investigation, there were 2,054 cards that could possibly have been used illegally. While the members did not suffer any damage, relevant members were notified of the incident individually.

Concerning Prevention of Recurrence

Not only was an internal audit conducted, but an audit by outside auditors was conducted as well. The operations and control methods of the card center were reviewed so as to prevent recurrence of a similar incident in the future. On June 14, 2005, the Investigative Task Force was disbanded, and management is being implemented in the daily operations.

Credit Card Purchase Receipts Theft at our Company's Affiliated SS

On the night of June 26, 2005, the collection bag containing proceeds from sales and sales receipts was stolen at the service station counter of an affiliated company of ours in Tenri City, Nara Prefecture. The collection bag contained 254 sales receipts from the service station (of which 78 were credit card receipts). In addition, in the dawn hours of July 12, 2005, customer sales receipts of credit card purchases (a total of 152 receipts) were stolen from the service station counter of an affiliated company of ours in Machida City, Tokyo. The credit card receipts that were stolen contained information such as the customer's name, card number, and expiration date.

Response Measures

Immediately after the incidents occurred, damage claims were filed with the police, the customers who were the card holders of the sales receipts that were stolen were identified and notified so as to prevent damage, and procedures to prevent the unauthorized usage of personal information.

Concerning Prevention of Recurrence

While the current Cosmo POS machines/V-POS implement non-display of the card expiration date and a portion of the member identification number on the POS receipts, this measure was extended to older C-POS receipts as well. In the event of that sales receipts are lost or stolen in the future, the customers would not be affected.