



Living with Our Planet

Filling Up Your Hearts, Too

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/policy.html>

Editorial Policy

This report aims to present a clear picture of a wide range of activities conducted by the Cosmo Oil Group from a perspective of its economic, environmental and social aspects - so-called the 'triple bottom line'.

The subjects included in the report are selected with reference to the Sustainability Reporting Guidelines 2002 of the Global Reporting Initiative (GRI).

Environmental accounting is selected with reference to the "Environmental Accounting Guidelines (2005)" published by the Ministry of the Environment.

This report and additional information appear on our website.

- We plan to release web pages beginning with the following URL "http://www.cosmo-oil.co.jp/eng/sustainable/" after the end of March 2007.
- Environmental data (including environmental accounting data) and site data appear on our website.



- Environmental-related data (including environmental accounting data)
<http://www.cosmo-oil.co.jp/eng/sustainable/06/info/index.html>
- Site data
<http://www.cosmo-oil.co.jp/eng/sustainable/06/site/index.html>

Report Coverage

This sustainability report covers the economic, environmental and social activities conducted by the Cosmo Oil Group in fiscal year 2005 (from April 1, 2005 to March 31, 2006). Note that some examples include activities in fiscal year 2006. For the overall picture of the Group, see pages 7 and 8.

Other Publications

In addition to the sustainability report, the following publications are available. The latest versions are shown on our website, and are downloadable. If you would like the booklets, please contact Public Relations Office (tel: +81-3-3798-3101), Corporate Communications Dept., Cosmo Oil Co., Ltd.



- Annual Report / Fact Book
<http://www.cosmo-oil.co.jp/eng/ir/annual/index.html>
- News Letters
<http://www.cosmo-oil.co.jp/eng/ir/newsletters/index.html>
- Financial Data
<http://www.cosmo-oil.co.jp/eng/ir/financial/index.html>

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Commitment

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/commit.html>

To be a corporation worthy of continuous trust and respect from society

We resolve to work out the system of steady supply of energy with safety as its first principle, and to raise further awareness among our company of the imperative need of that principle, having a profound sense of responsibility to the unfortunate accident and a series of insufficient compliance, we currently went through.



About the accident, a series of insufficient compliance

We deeply apologize to everyone for the fire at the Chiba Refinery in April 2006, and for the past law violations found subsequently.

Right after the fire occurred in the Chiba Refinery, we set up the "Accident Investigation Committee" with the participation of external experts and the authorities concerned. The committee found the causes of the accident, analyzed them thoroughly, and drew up an investigation report in late June.

Two weeks after, we came across an internal report which informed that the same equipment had experienced another accident in 1995 but no notification had been issued to administrative authority. Furthermore, an additional investigation revealed that there were law violations such as unauthorized repairs at the Yokkaichi, Sakai, and Sakaide Refineries.

We imposed penalties on our executives and administrators responsible for these serious problems, and with deep and company-wide regret, we will make every effort to investigate further into the cause of the problems and take all the preventive measures to recover our credibility.

With our deep regret for the problems = Thorough compliance and awareness raising =

The report made by the Accident Investigation Committee presented no information about the past accident in the same equipment. Some individuals participated in the committee knew about the incident, but unfortunately, they could not disclose it.

Presumably, there were some elements in the background of a series of improper procedures and insufficient compliance.

Our refineries are running with a rather pyramidal management structure in order not to disrupt oil production and to secure high level of safety. A series of recent

In striving for harmony and symbiosis between our planet,
man and society,
we aim for sustainable growth towards
a future of limitless possibilities.

Harmony and Symbiosis

- Harmony and Symbiosis with the Global Environment
- Harmony and Symbiosis between Energy and Society
- Harmony and Symbiosis between Companies and Society

Creating Future Values

- Creating the Value of "Customer First"
- Creating Value From the Diverse Ideas of the Individual
- Creating Value by Expressing Collective Wisdom

incidents, however, suggest that such structure may sometime neglect active horizontal cooperation and communication within the organization, and also, may sometime obstruct the bottom-upped opinions to be picked up. Both of which, I believe, would weaken the awareness of compliance.

At our refineries, we deal with petroleum, hazardous material. So we have a keen sense of responsibility for safety.

As we are dealing with highly public as well as hazardous substances, our duties are strictly controlled by regulations by means of conducting double and triple checking system. At the same time, it is most important for us to gain reliance from society through a thorough compliance.

I am confident that we can take the first step toward recovering our credibility only when each staff of the various fields of the company fully comprehends and shares the meaning of compliance. I am now working on to reinforce our system to prevent any accident by reviewing the current work flow and setting up the "Refinery Compliance Committee." As the President of Cosmo Oil, I will take the initiative in raising in-house awareness while asking what the company should do as a member of the community, and what kind of role each employee should play as a member of the company.

Moreover, the refinery directors, branch office managers, department chiefs, and other members of the top management, including myself will take initiative to improve the corporate culture so that the field opinions shall be easily picked up and communication is actively promoted.

**Toward the recovery of our reliability
= Pursuing our role in society=**

We have two symbolic phrases that describe our Management Vision; "Filling Up Your Hearts, Too" and "Living with Our Planet." We believe our role in society is to realize the value we are giving to these phrases,

through a safe and stable supply of energy supporting human life and industries, while maintaining a good relationship with all our stakeholders.

In order for Cosmo Oil to be a corporation worthy of continuous trust and respect from society, I believe that every staff member, in each duty, must recognize this "role" through the activities ranging from crude oil development to sales of petroleum products, as well as peripheral businesses and all the fields including environmental conservation to realize a globally sustainable society.

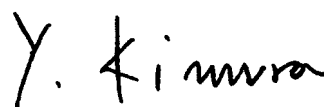
Since the fiscal year 2005, the Cosmo Oil Group has been carrying out activities for strengthening safety control and awareness of compliance, to promote CSR management as one of the main principles of our current medium-term management plan. In February 2006, we signed the Global Compact proposed by the United Nations to commit our corporate position as a member of the international society. All that notwithstanding, I must say we are now encountering difficult situation.

To restore the trust from our stakeholders, we will make efforts to take preventive measures by remembering our original purposes—what is our essential role and what value we can provide for society.

We will continue with our investigation to clarify the whole picture of the problem and will disclose the results on our website as soon as possible. We will also describe the resulting activities and preventive measures in the next report. I would like everyone to continue giving guidance and support to the Cosmo Oil Group.

Yaichi Kimura

President
Cosmo Oil Co., Ltd.



About the April 2006 Accident at the Chiba Refinery and a Series of Misconduct

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/chiba.html>

About the accident of April 2006

Summary

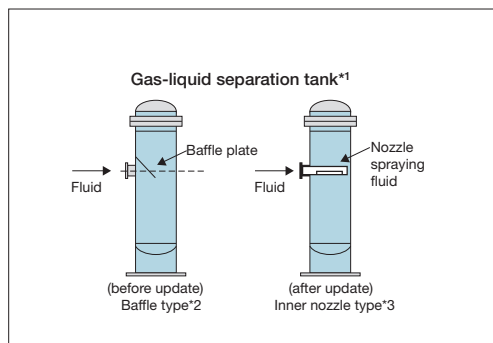
A fire broke out near the Vacuum Gas Oil Desulfurization Unit and the Hydrogen Production Unit No.1 in the Chiba Refinery on April 16, 2006.

After the accident, we set up the "Chiba Refinery Accident Investigation Committee for the Vacuum Gas Oil Desulfurization Unit and the Hydrogen Production Unit No.1" (chairperson: Masahide Furuzono, Managing Director) to find the causes, and submitted a report including the investigation results and preventive actions to the Nuclear and Industry Safety Agency, Ministry of Economy, Trade and Industry, and Chiba Prefecture on June 20, 2006.

Causes and preventive measures

We concluded that the explosion and fire broke out because an opening was formed in the shell plate of the gas-liquid separation tank*1 in the first hydrogen production system due to wear and corrosion, and hydrogen leaked out of the tank. In 1996, we modified the internal structure when replacing the tank, which changed the flow of fluid causing it to collide with part of the shell plate, resulting in a rapid thickness reduction (see the accompanying figure). At that time, we were not able to foresee the problem, and as a result, the accident occurred because we were unaware of the localized thickness reduction.

According to the above causes, we took the following preventive measures: the internal structure was returned to its original state to prevent fluid from concentrating on one place; the nozzle diameter was increased to reduce the flow velocity by half and the plate material was changed to a stronger one.



*1 Gas-liquid separation tank: Sits in the downstream of the carbon dioxide absorption tower and separates water injected into a pipe connected to the decarbonator.

*2 Baffle type: Includes a baffle plate in the body and lets fluid collide with the plate to diffuse and reduce the flow velocity.

*3 Inner nozzle type: Includes a nozzle in the body to diffuse fluid and reduce the flow velocity.

Report to the helpline and improper procedures found

On July 4, 2006, the corporate ethics helpline received an anonymous letter from an employee of the Cosmo Oil Group. The letter stated that the causes and preventive measures announced by Cosmo Oil were questionable because the announcement did not include the same accident encountered in 1995. The employee thought that the action—returning the internal structure to the original state—did not make sense because the same type of accident had occurred in 1995, and that Cosmo Oil had concealed that fact deliberately. We, mainly the Corporate Ethics Committee, investigated the 1995 accident and found that it was the same type of the 2006 accident, but no report had been sent to the authorities concerned, and the hole had been repaired without permission after the accident. Furthermore, the accident investigation report already submitted included fictitious thickness data of fixed measurement points. We reported it and apologized to the Nuclear and Industry Safety Agency and Chiba Prefecture on August 4, 2006.

Internal investigations conducted by the investigation team and administrative penalties

On August 8, 2006, the agency warned and instructed us to make improvements as follows:

1. Find the causes of the improper procedures in 1995 and plan preventive measures.
2. Check whether correct inspections were carried out according to the High-Pressure Gas Safety Law at all the sites of Cosmo Oil after April 1997.

We also received the same instructions from Chiba Prefecture on August 10, 2006.

Accordingly, Cosmo Oil formed an investigation team which was given the task of interviewing the staff members concerned and examining internal documents and records. The team organized the results and submitted an investigation report to the agency and prefecture on August 31, 2006. The following summarizes the report.

Results of investigation on the 1995 accident at the first hydrogen production system of the Chiba Oil Refinery, and responses following the accident

(1) Accident summary

On December 11, 1995, fluid containing hydrogen leaked out of the gas-liquid separation tank in the first hydrogen production system because a linear opening had occurred in the tank's shell plate. We stopped the system safely and identified neither personal injury nor physical damage.

(2) Causes of accident

The fluid entering the gas-liquid separation tank collided with the baffle plate, which changed the flow and concentrated the fluid onto part of the shell plate, and the wear and corrosion that developed caused a linear opening about 7 mm long, from which the fluid leaked.

(3) Improper procedures during and after the accident

After the accident occurred, we did not inform the authorities concerned as stipulated in the Law on the Prevention of Disasters in Petroleum Industrial Complexes and Other Petroleum Facilities, and sent no notification based on the High-Pressure Gas Control Law. The day following the accident, we closed the opening (first-aid repair) without permission from Chiba Prefecture.

(4) Causes of improper procedures

The reason for not reporting the accident according to the law was that we thought it might take a long time to describe the causes and measures, which would delay repairs and cause a longer system down time. We gave priority not only to safety but also to early recovery. Accordingly, we selected the first-aid repair without permission to restart the system for a short time.

(5) False data created when the equipment was replaced in 1996

We replaced the gas-liquid separation tank in June 1996. The documents prepared to request the equipment change indicated that the reason for this replacement was that the wall thickness had reduced with time. As a result of the investigation, we came to a conclusion that thickness data of fixed measurement points without actual measurement was created out of a need to prove the aforementioned reason.

Results of investigation on procedures and inspections carried out according to the High-Pressure Gas Safety Law made after April 1997 and administrative penalties

We found that seven unauthorized repairs that did not follow the High-Pressure Gas Safety Law were made from April 1997 to August 31, 2006. On September 1, 2006, the day after we presented an investigation report, the Nuclear and Industry Safety Agency announced that penalties would be imposed on Cosmo Oil, and determined them on September 19, 2006.

- The Chiba Refinery has lost the certifications for completion and safety inspections.
- The Yokkaichi, Sakai, and Sakaide Refineries have lost the certification for completion inspections.

About identifying other violations of laws and internal penalties

In a successive investigations, we found violations of Industrial Safety and Health Law, the Fire Defense Law, etc. As a result, the total number of violations turned out to be 47 in 36 engineering works at all the

oil refineries, and 13 of them pertained to leaking accidents. According to these investigation results, we corrected the investigation report for the April 2006 accident at the Chiba Refinery and resubmitted it on October 3, 2006.

Main corrections

- (1) We added the results of the investigations of the 1995 accident.
- (2) We added the fact that all the members, except the chairperson of the Accident Investigation Committee set up before June 20, 2006, did not refer to the 1995 accident even though they knew about it.
- (3) We deleted the fictitious thickness data of fixed measurement points.

Moreover, we determined and announced on October 3, 2006 that we would impose penalties on the management.

Main penalties

- Voluntary return of a part of salary
 - Keiichiro Okabe, Chairman (50% of the salary for 3 months)
 - Yaichi Kimura, President (50% of the salary for 3 months)
- Pay cut
 - Masahide Furuzono, Managing Director (50% of the salary for 3 months)
 - Masatoshi Sawada, Senior Executive Officer & General Manager, Refining & Technology Dept. (30% of the salary for 3 months)
 - Seizo Suga, Senior Executive Officer & General Manager of Yokkaichi Refinery (30% of the salary for 3 months)
 - Takashi Yashima, Executive Officer & General Manager of Chiba Refinery (30% of the salary for 3 months)
 - Hajime Marukawa, Executive Officer & General Manager of Sakai Refinery (30% of the salary for 3 months)
 - Hideto Matsumura, Executive Officer & General Manager of Sakaide Refinery (30% of the salary for 3 months)

For the recurrence prevention

With deep regret for the accident and the series of improper procedures, Cosmo Oil will quickly take the necessary measures, raise awareness of corporate ethics, and reform our safety and compliance systems in order to prevent any recurring problem and to recover our credibility. We have already started or determined the following actions (for more information, see pages 13 and 14 of this report):

- Boosting activities for raising awareness of corporate ethics (see page 13).
- Reinforcing checking and monitoring functions (see page 13).
- Verifying and reforming our safety control system (see page 14).

In the near future, we will take the necessary measures based on the internal investigation results and will describe them in the next report.

Outline of the Cosmo Oil Group

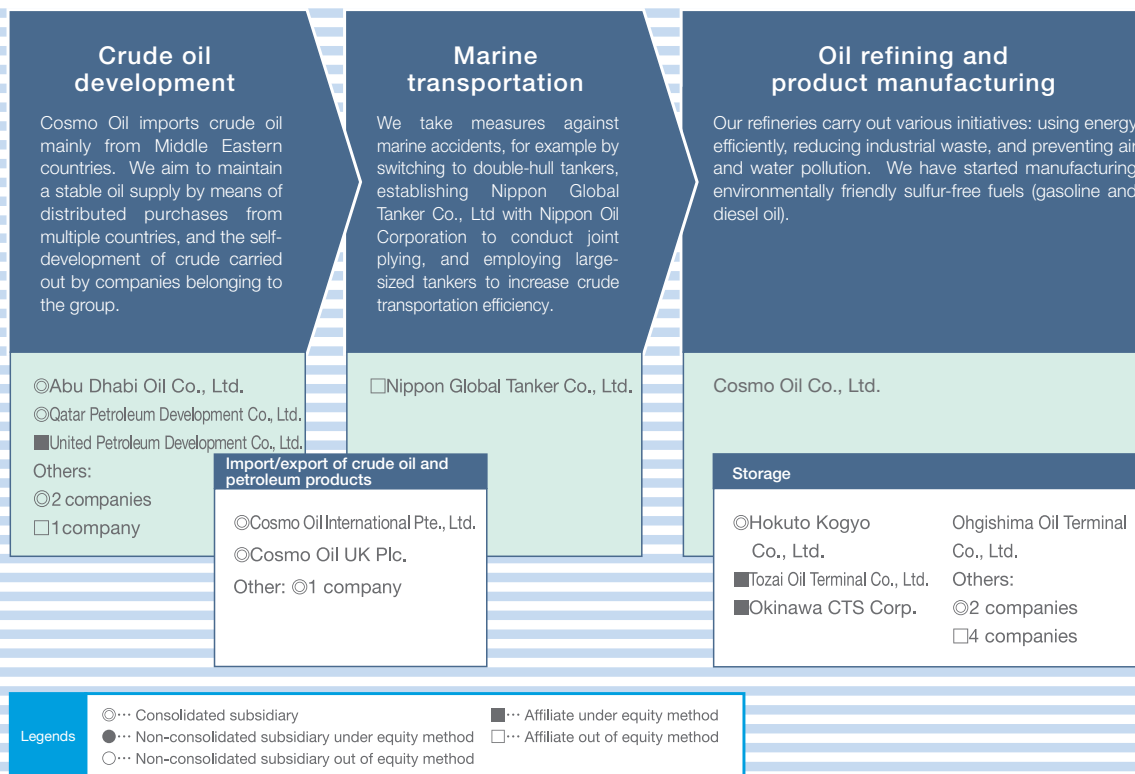
Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/cosmo.html>

The Cosmo Oil Group operates oil businesses, ranging from the development of crude oil (upstream business) to the manufacturing and sales of oil products (downstream business).

In addition, we explore new business areas of energy, and new technology development to, aiming to achieve a best mix of energy sources.

Oil business flow and group summary

As of March 31, 2006
Consolidated subsidiaries: 30 companies



Corporate profile (as of March 31, 2006)

Name	Cosmo Oil Co., Ltd.
Head office	1-1-1, Shibaura, Minato-ku, Tokyo 105-8528 Japan
Telephone	+81-3-3798-3211
Established	April 1, 1986
Capital	62,366,816,126 yen
Purpose of Business	Oil Refining and Sales
Employees	1,718

History	Cosmo Oil Co., Ltd. was established on April 1, 1986 resulting from the merger among Daikyo Oil Co., Ltd., Maruzen Oil Co., Ltd., and the former Cosmo Oil Co., Ltd, their refinery subsidiary. Asia Oil Co., Ltd. was merged with Cosmo Oil on October 1, 1989.
Dealers	303 offices / 4,552 service stations
Branch office	Sapporo (sales), Sendai, Tokyo, Nagoya, Osaka, Hiroshima, Takamatsu, and Fukuoka
Refineries	Chiba, Yokkaichi, Sakai, and Sakaide
Oil depots	38 places (including 35 subcontractors and excluding the discontinued)

Business field expansion

Power supply

The Yokkaichi Refinery takes advantage of residual oil for its IPP business. The Yokkaichi Kasumi Power Plant, which has a power generation capacity of 200MW, started in July 2003. We sell the power to Chubu Electric Power Co., Ltd.

Energy service

We have developed a distributed power supply system that produce low-cost energy for on-site use at facilities such as hospitals and factories. The system uses waste heat generated during electricity production in order to increase the energy utilization efficiency and to reduce CO₂ emissions.

New fuel development

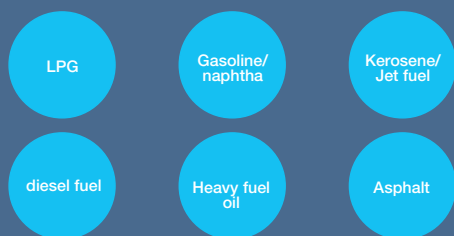
We have demonstrated LPG fuel cell systems and developed technologies for producing household fuel cell systems and for using recyclable biomass and GTL fuels.

ALA

□ Cosmo Seiya Agriculture Co., Ltd

ALA (5-aminolevulinic acid) is natural super amino acid from which chlorophyll or blood is made. Cosmo Oil has produced it successfully and started selling "Pentakeep V," a highly functional fertilizer containing ALA. The hair industry is interested in ALA because of its trichogenous effect.

Petroleum product manufacturing



Lubricant production

©Cosmo Oil Lubricants Co., Ltd.

Petrochemicals manufacturing

©Cosmo Matsuyama Oil Co., Ltd.
©CM Aroma Co., Ltd.
■ Maruzen Petrochemical Co., Ltd.

Domestic transportation

We increase the efficiency of our distribution system and save energy by employing large-sized tanker trucks and domestic tankers and increasing the stowage rate. For transport by land, we aim at high efficiency and energy saving by means of independent loading and unloading, and night delivery.

©Cosmo Kaiun Co., Ltd.
©Sakaide Cosmo Kosan Co., Ltd.
©Cosmo Delivery Service Co., Ltd.
Others: ◎6 companies
●4 companies
□9 companies

Sales

We check about 5,000 service stations for the actual status of environmental control twice a year, and make improvements based on the results. To make our service stations environmentally friendly, we installed solar cell panels at 37 service stations.

©Cosmo Petroleum Gas Co., Ltd.
©Cosmo Oil Lubricants Co., Ltd.
©Cosmo Oil Sales Co., Ltd.
Others:
◎5 companies ■1 company
●15 companies □19 companies
○1 company

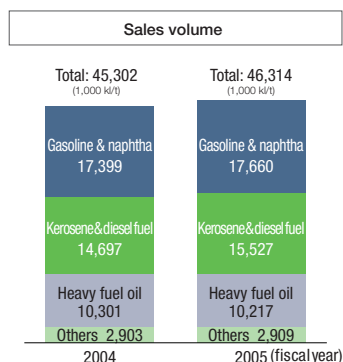
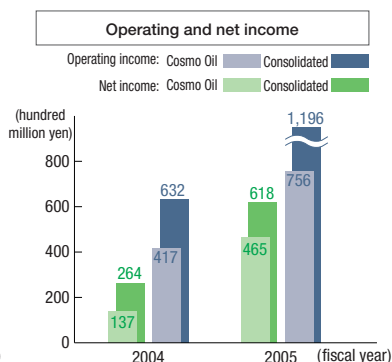
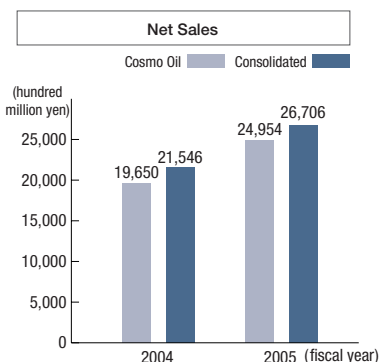
Research and development

©Cosmo Technology Research Institute

Other businesses (construction, insurance, leasing, real estate, rental, etc.)

©Cosmo Engineering Co., Ltd.
©Cosmo Trade & Service Co., Ltd.
©Cosmo Business Support Co., Ltd.
Others: ◎4 companies
●15 companies
○3 companies
□3 companies

Financial Data



Governance Aspect

C O N T E N T S

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Activities for Recovering our Credibility

~ To reform our systems and awareness for safety and compliance ~

Naomasa Kondo, a Managing Director in charge of CSR safety official

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/gov/index.html>

The April 2006 accident in the Chiba Refinery as well as a series of the improper procedures occurred at our refineries. Due to these problems, we have lost the trust of our customers. With our deep regret, all the personnel of the Cosmo Oil Group will make efforts to take the preventive measures of recurrence and recover our credibility.

After carefully reviewing the causes and backgrounds of the problem, we have started addressing inadequacies in our safety control and compliance systems. We regret that the highest priority was not fully given to safety and compliance in our

corporate culture, so we have also started activities for reforming the awareness of safety and compliance.

To put it concretely, all the refineries shall quickly implement the preventive measures and reinforce their checking and monitoring systems. We also set up the "Refinery Compliance Committee" in order to study and verify the actual work at our refineries and to improve the level of compliance.

To raise the awareness of compliance further, I think that it is essential to conduct the various activities to ensure that each staff member understands it thoroughly. Accordingly, all the personnel must do their daily work based on the following points of view:

- Do not neglect compliance in favor of the immediate profit.
- Check whether our actions represent common sense from the social standpoint.
- Have a good communication.
- Establish a favorable relationship with our partners, such as associate companies, dealers, and authorities.

With these approaches in mind, we will grasp the current status of the company and verify 1) whether there is incompleteness in our checking regulations in all the tasks and 2) whether the internal checking systems are functioning. Furthermore, we will make improvements based on the verification results and establish the sound and transparent governance system so as to recover our credibility and to reform both of our total system and awareness.



Consolidated Medium-Term Management Plan and CSR Promotion

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/gov/csr.html>

In order to establish a stable revenue infrastructure and to exercise social responsibilities, we are implementing the “New Consolidated Medium-Term Management Plan.”

New Consolidated Medium-Term Management Plan

The oil industry is changing significantly. In Japan, oil demand is decreasing and black oil, including heavy fuel oil, is being replaced with white oil including gasoline, that is to say there is a change in the oil demand structure. In addition, the Kyoto protocol increases the importance of environmental measures. Overseas, the oil demand structure is also changing greatly, for example, the energy market is expanding and the balance of oil demand is getting tight. With these circumstances in mind, the Cosmo Oil Group started the New Consolidated Medium-Term Management Plan from FY2005.

Basic policies

The plan's basic policies are 1) to establish a stable management infrastructure, and 2) to move to the growth strategies. The first policy means that we changed our goal from the previous one of “rationalization” to the establishment of a stable business infrastructure, as well as the shift to corporate structure that can endure the risks of changes of the business environment. One of the most important elements of this policy is the “Enhancement of CSR (Corporate Social Responsibility) Promotion,” and we drew up a “Consolidated Medium-Term CSR Management Plan” separately. The second policy means that we respond to the changes in oil demand structure by making a strategic capital investment in order to make our refineries more sophisticated and competitive, and by expanding our expanding such as oil development, petrochemicals manufacturing, and export. The Plan's most salient feature is to boost the strategic investments and financial structure. We will implement the plan steadily to aim at the sustainable growth. In FY2005, the first year in which the plan was implemented, we achieved the operating income targets due to an increase in the earnings of affiliates, foreign exchange gains, and dividends received.

Consolidated Medium-Term CSR Management Plan

Cosmo Oil Group aims to generate profits as a corporate entity and to fulfill our social responsibility. We believe that a good balance between the two goals will let “Sustainable Growth” come true through our management philosophy of “Harmony and Symbiosis” and “Creating Future Values.” To share and implement this policy throughout the group, we included “strengthening CSR” in the Consolidated Medium-Term Management Plan initiated in FY2005, and started the three-year Consolidated Medium-Term CSR Management Plan to make it a reality.

Basic policies

Different companies or departments have different relationships with society. Accordingly, the CSR plan is basically site-based, but it sets up five policies common to the group: 1) improving the awareness of CSR, 2) reinforcing risk management and internal audit function, 3) strengthening safety control, 4) taking a sophisticated approach to the environment, and 5) protecting human rights and implementing personnel-related measures. Since FY2005, we have promoted CSR management in accordance with these policies, but then we were faced with the accident and incorrect procedures in 2006. With our deep regret for all the trouble, we have just started identifying issues to address and reviewing drastically such matters as safety control, compliance, and initiatives that aim to integrate CSR into our corporate culture. We will describe the results in the next report.



Related information

• Consolidated Group Earnings Target / Indicator
 • Consolidated Medium-Term CSR Plan
<http://www.cosmo-oil.co.jp/eng/sustainable/06/gov/csr.html>

Compliance and Risk Management

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/gov/compliance.html>

To realize honest and transparent corporate management and improve the morale in the company, we make strong efforts to promote compliance and enforce risk management.

Compliance promotion

Cosmo Oil Group Corporate Ethics Committee

To foster the awareness of our Management Philosophy, Corporate Action Guidelines, and compliance, we have set up the "Corporate Ethics Committee" right under the Board of Directors, and designated the president as the chairperson. We also have established a "Corporate Ethics Promotion Office" as a sub-organization of the committee.

Cosmo Oil Group Corporate Activity Guideline

All the officers, employees, temporary staff members, and part-timers working for the Cosmo Oil Group must follow Cosmo Oil Group Corporate Activity Guideline.



Cosmo Oil Group Corporate Activity Guideline
<http://www.cosmo-oil.co.jp/eng/company/guideline.html>

Assigning corporate ethics managers

To improve the awareness of corporate ethics and compliance in the workplaces, Cosmo Oil designates department managers, plant directors and the presidents of affiliates as corporate ethics managers.

Setting up the Cosmo Oil Group Corporate Ethics Consultation Helpline

Before the Whistleblower Protection Act was enforced in April 2006, we set up the Corporate Ethics Consultation Helpline where the internal or external individuals can have consultations about regulatory or ethical problems related to the tasks performed in the Group, or report such problems. We make sure that the consulter to the helpline remains anonymous so as not to cause problems, and we also set up a liaison with external attorneys.

Raising the awareness

We train all the personnel at all the sites every year and let them fill out a questionnaire to check for awareness of compliance. In FY2005, we published the "Cosmo Oil Group Corporate Activity Guideline Textbook" to ensure that all the staff members can familiarize themselves with the guidelines.

Information management

We have procedures to ensure that all the information that can be known in the course of our business are correctly handled and managed according to the regulations for information management, personal information, and etc.

Risk management system

Since FY2003, Cosmo Oil has conducted company-wide activities for identifying and evaluating risks, planning and implementing appropriate measures, and reviewing the results every year. The main purposes of these activities are to improve our internal rules, to work out preventive actions against risks, and discuss how to respond to emergencies. Concerning the last one, we set up the "Risk Management Committee" in July 2005 to draw up a company-wide business continuity plan for recovery from disasters (particularly large earthquakes).

Business Continuity Plan (BCP)

This plan defines the policies and organizations for recovery from a large-scale disaster assumed by Cosmo Oil. In the event of a large-scale earthquake occurring right under Tokyo, we shall make preparations for restarting our operation as soon as possible and supporting the local communities around our sites. From FY2006, the main affiliates started preparations for drawing up their own BCP.

Preventing Misconduct from Recurrence

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/gov/compliance.html>

We have defined “compliance” as one of the pillars of CSR management, in order to improve our system and the awareness of ethics in the company, but we encountered a series of improper procedures. Therefore, we now realize that it is important to establish a system and corporate culture in which no disgraceful affair recurs.

Though we are still continuing the internal investigation, our concrete measures already taken or soon to be taken are as follows.

We will take the necessary measures against all the problems found by the internal investigation , and will describe them in the next report.

Encouraging corporate ethics promotion activities

- **Setting up the Refinery Compliance Committee**
With our deep regret for a series of improper procedures, we set up the Refinery Compliance Committee (chairperson: refinery director) as a sub-organization of the Corporate Ethics Committee at each refinery, to improve awareness of compliance. The Corporate Ethics Committee supports and oversees the committee on a routine basis.

- **Thorough Reeducation of corporate ethics in our refineries**

The director of each refinery continues advocating the importance of compliance, and we again will provide an ethical education to all personnel.

- **Reviewing our monitoring system from a company-wide point of view**

We have conducted a questionnaire-based survey to grasp the extent to which corporate ethics and compliance take root in the company. However, we will review the survey, analysis, and verification methods from a company-wide point of view to understand the current status more precisely and to increase the effectiveness of these activities.

Strengthening our checking and monitoring functions

- **Separating the production function and safety control function at production sites**

To establish a system in which the opinions of the safety control function are effectively reflected in the operation and facilities control, we have revised our rules including work standards so that the Safety & Environment Office, the safety control function, can fulfill its duties independently from refineries. The director in charge of production used to oversee also safety control, but there is a clear separation between production function and safety control function: the managing director in charge of safety control, the Safety and Environment Control Department at the headquarters, and the Safety and Environment Control Office at each refinery.

- **Reviewing the procedures in our refineries**

We have reviewed and amended our procedures in order to ensure that the Safety and Environment Control Office at each refinery checks whether a regulatory request or notification is required by law for every engineering work, and the work is proceeded only when all the required regulatory procedures are completed.

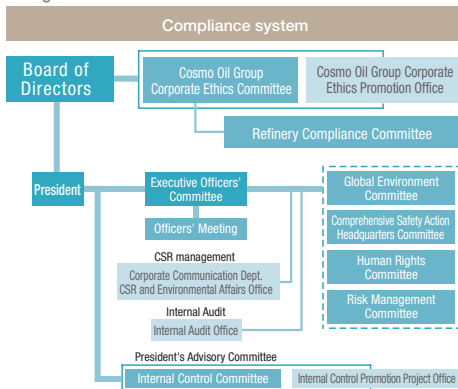
- **Ensuring for the refinery to send a notice to the nearest fire station**

Immediately after an accident occurs, the refinery must inform the nearest fire station of it, and then inform our headquarters. To ensure that the fire station is notified, we now have two separate reporting lines and have defined our reporting procedures more in detail.

- **Establishing a multiple internal audit system**

In addition to the internal audit performed at each, the Safety & Environment Control Dept., Refining & Technology Dept. at the headquarters, the Safety and Environment control office, and Engineering section in another refinery regularly inspect what types of engineering works have been done at the refinery and whether all the procedures required by law have been completed. In addition, the Audit Office at the headquarters carries out internal audits. Through these serial inspections, we aim to ensure that the refinery runs properly and make its operation transparent.

▼ Figure 2



Activities for Safety

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/gov/safety.html>

In reviewing the Group's activities for safety control in the past, we will reestablish our safety management system and raise the awareness of all the personnel for safety.

Safety control system in FY2005

The Cosmo Oil Group has been conducting safety control activities under the management of the Comprehensive Safety Action Headquarters (chairperson: the Director in charge of safety), a Group-wide safety control organization.

We set safety targets for each division of production, logistics, and sales. Furthermore, based on the above, our refineries set up their own safety targets.

Each Refinery established its own safety management system, partly adopting the framework of ISO 14001, and have implemented the system since FY2004.

The logistics division instructs the external carriers to avoid any accident by conducting safety inspections and check-ups of loading and unloading operations.

The sales division makes daily inspections at each service station (SS) and provide trainings to SS staff members to raise their awareness for safety.

Activities in FY2005

In FY2005, we have attempted to fulfill our Group wide safety goal of "Maintaining the safety level through work following the basics". Furthermore, to raise the level of safety operation and safety supply, the Cosmo Oil Group drew up the consolidated medium-term safety plan in which departmental activities were included.

In FY2005, the headquarters conducted the safety inspections at six sites, including our refineries and oil depots.

Future safety control system

Since FY2005, the first year in which the Consolidated Medium-Term Safety Plan was implemented, we had been conducting activities for safety, but the fire occurred in the Chiba Refinery in April 2006.

After the accident, we set up the Accident Investigation Committee consisting of the director in charge of safety, external experts, and the authorities concerned. The Refinery's Safety management System Restructuring Committee was set up in June 2006 in order to prevent any further accidents. The safety management system, which was established at each refinery in FY2004 to ensure and improve safety, was reviewed by the Committee and several improvements were made.

We will continuously review the safety management systems at refineries and their implementation, work out measures to improve the systems based on the reviews, and reestablish the systems according to those measures. In addition to the system improvement, we will actively proceed with raising the awareness for safety.



Number of accidents
<http://www.cosmo-oil.co.jp/eng/sustainable/06/gov/safety.html>



Environmental Aspect C O N T E N T S

Our Approach to the Environment
“Consolidated Medium-Term
Environmental Plan” — **16**

Environmental Management
System — **17**

Environmental Impacts
from Business Activities — **19**

Prevention of Global Warming — **21**

Pollutants and Waste Management **23**

Soil Environmental Preservation — **24**

Environmental Preservation
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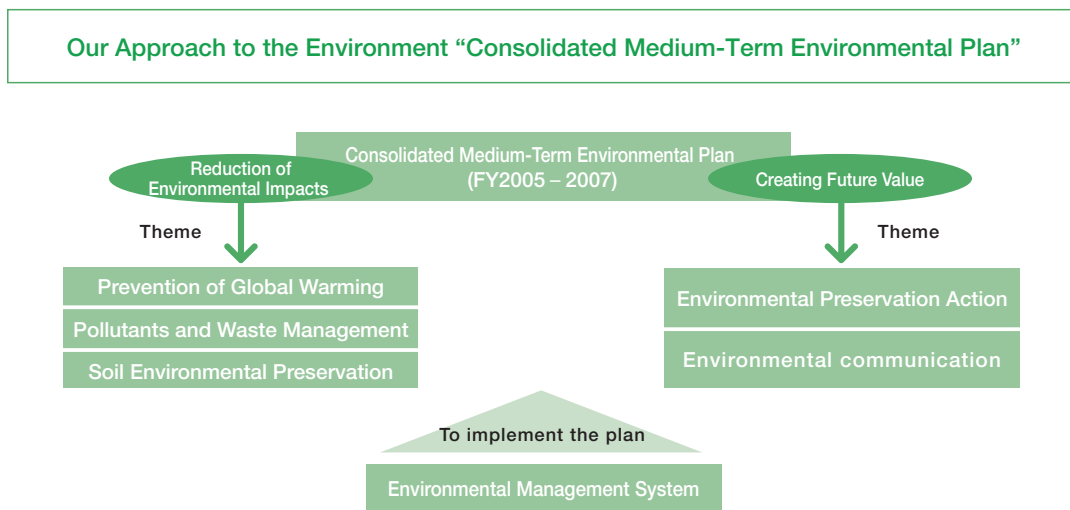
Living with Our Planet

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/env/index.html>

We describe the activities in FY2005 conducted by the Cosmo Oil Group based on the "Consolidated Medium-Term Environmental Plan."

The Cosmo Oil Group started the new three-year Consolidated Medium-Term Environmental Plan in FY2005. Our goals are two-fold: "Reduction of Environmental Impacts" and "Creating Future Value." The purpose of the latter is to achieve a sustainable global society.

Cosmo Oil implemented its own medium-Term environmental plan "Blue Earth 21" from FY2002 to FY2004, but we, as the Cosmo Oil Group, have started Group wide sustainability management in FY2005".



Consolidated Medium-Term Environmental Plan (FY2005 - 2007)

Theme		Main Targets	Performance in FY2005	Future Challenges
Reduction of Environmental Impacts	Prevention of Global Warming	<ul style="list-style-type: none"> Cosmo Oil: Reduce unit energy consumption for 2008-2012, the first commitment period of the Kyoto Protocol, by 15% from the 1990 level through implementing energy conservation initiatives at refineries and purchasing carbon credits. Related affiliates: Set targets and take actions to attain them. 	<ul style="list-style-type: none"> Cosmo Oil: Achieved 13.5% cut of unit energy consumption (FY2005 target: 10.9% cut) through energy conservation initiatives at refineries. In FY2004, we closed an agreement of purchasing 1 million t-CO₂ worth of carbon credits. Related affiliates: Set targets. 	<ul style="list-style-type: none"> Work out and take additional measures for energy conservation.
	Pollutants and Waste Management	<ul style="list-style-type: none"> Cosmo Oil: Maintain the average industrial waste landfill rate of less than 1%. Effectively control pollutants, hazardous substances, and industrial waste. 	<ul style="list-style-type: none"> Achieved the average landfill rate of 0.7%. Took measures against Asbestos. Controlled PCBs under proper management. 	<ul style="list-style-type: none"> Implement and improve measures. Continue proper management.
	Soil Environmental Preservation	<ul style="list-style-type: none"> Take measures: quick response based on survey results, facilities control for preventing the adverse effect on the surrounding areas, and operation and control reinforcement. 	<ul style="list-style-type: none"> Conducted scheduled investigations at Cosmo-owned service stations and cleaned up contaminated soil. Reinforced the control system of all the service stations and raised awareness. 	<ul style="list-style-type: none"> Take appropriate actions at affiliate sites.
Creating Future Value	Environmental Preservation Action	<ul style="list-style-type: none"> <Office Clean Activities> Cosmo Oil (Base year: FY2003; Target year: FY2007): Copy paper: cut by 16%; fuel consumption of company cars: cut by 18%; electricity consumption in the offices: cut by 10%. Related affiliates: (Base year: FY2004; Target year: FY2007): Copy paper: cut by 14%; fuel consumption of company car: cut by 12%; electricity consumption in the offices: cut by 11%. 	<ul style="list-style-type: none"> Cosmo Oil: Copy paper: cut by 9%; Fuel consumption of company cars: cut by 18%; Electricity consumption in the offices: cut by 8% Related affiliates: Copy paper: increased by +1%; Fuel consumption of company cars: cut by 9%; Electricity consumption in the offices: cut by 3% 	<ul style="list-style-type: none"> Share information on the initiatives of leading sites to attain medium-term targets.
	Environmental Communication	<ul style="list-style-type: none"> <Green purchasing> Promote green purchasing of office supplies and other consumable goods, and the 'greening' of suppliers. 	<ul style="list-style-type: none"> Purchased office supplies and other consumables according to our green purchasing standard and assessed suppliers. 	<ul style="list-style-type: none"> Expand the scope of goods purchased through green purchasing. Aim to attain to the number of 30 green suppliers.
	Environmental Communication	<ul style="list-style-type: none"> <Environmental contribution and cooperation activities> Disseminate information to society and our stakeholders and promote two-way communication. 	<ul style="list-style-type: none"> Conducted activities for Cosmo Oil Eco Card Fund and overseas technical cooperation activities. Placed ads on TV and radio and made an internet movie. 	<ul style="list-style-type: none"> Strengthen our contributions to local communities through service stations and refineries. Work towards interactions with stakeholders, for example, through Eco Card membership.

Governance Aspect

Environmental Aspect

Social Aspect

Environmental Management System

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/env/management.html>

The Cosmo Oil Group implements its environmental management system and undertakes various environmental initiatives in order to fulfill its responsibility for the environment - one of the most important social responsibilities for an energy company.

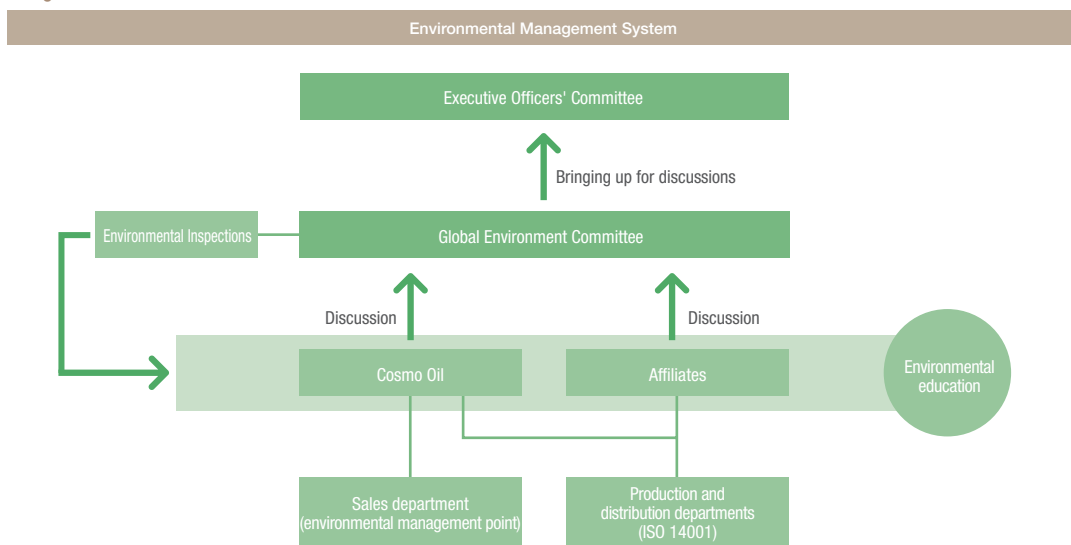
Environmental Management System

The Cosmo Oil Group has established its own environmental management system in which our affiliates are also involved. Each business unit specifies its own targets based on the Consolidated Medium-Term Environmental Plan, and the results are fed back into the plan. The hub of this system is the "Global Environment Committee" that connects all the departments horizontally with the goal of preserving the environment. The committee reviews the plan and performance, and reports the review results to the Executive Officers' Committee in order to implement the PDCA cycle effectively and to allow all the personnel, ranging from management to field workers, to share information. We also conduct "Environmental Inspections" to grasp the status of activities at each site. To ensure that environmental management is properly done at individual sites, each site also has its own environmental management system, and provide the employees with environmental education to raise their awareness (see page 18).

Environmental Inspections

In order to implement the environmental management system efficiently, it is important not only to review the results but also to check whether proper operational controls are put in place, and to take corrective actions against the identified problems. The Cosmo Oil Group lets the members of the Global Environment Committee conduct environmental inspections audit at each site. As a rule, they inspect the production, logistics, sales, and new businesses development departments once a year. At our oil refinery, which exert non-negligible impacts on the environment, the director in charge of the Safety and Environment Dept. and the person in charge of environment at another site are involved in as the leader and observer, respectively. The inspectors report the results to the Executive Officers' Committee via the Global Environment Committee.

▼ Figure 3



Site-based environmental management system

The environmental management system is implemented horizontally throughout the Group, while each site has its own system.

ISO 14001 at the production and logistics departments

The Cosmo Oil Group encourages our sites which exert non-negligible impacts on the environment to get the ISO 14001 certification. Eight sites including the four oil refineries have been already certified. Each site implements the PDCA cycle to make continuous improvements according to ISO 14001. Apart from regular external audits performed by certification bodies, each site conducts internal audits.

Environmental management (EM) point at the service stations (SS)

Since April 2003, the Cosmo Oil Group has been running the SS sales promotion program "NAVI" that reviews performance indicators including "Measures against Leaks," "Checks on Facilities," and "Industrial Waste Treatment." As part of this program, we use an "SS Environmental Management (EM) Point Checklist" to inspect the actual status of the service stations and to address the identified problems.

We conduct this survey at about 5,000 service stations all over Japan, twice a year. The rate of checklist collection and the resulting scores has been increasing gradually.

We will continue the survey in order to grasp the actual safety control of the SS facilities and to improve the management system..

Environmental education

For the environmental management system to work well, we believe that all personnel needs to correctly understand the background and meaning of environmental activities conducted by the Cosmo Oil Group. We provide an environmental education program in our position-based training courses and allow each employee to take them step by step while building their careers. Refineries also provide their employees with training courses required by ISO14001.

Environmental Accounting

To conduct environmental conservation initiatives effectively, the Cosmo Oil Group began the environmental accounting from FY2000 to identify the environmental conservation costs, as well as the environmental conservation benefits and economic benefits.

The environmental conservation cost totaled 68.1 billion yen, which includes the cost of 2.5 billion yen for reducing sulfur content of products. The environmental conservation benefit was 9.795 billion EIP (JEPPIX's index*), which was slightly higher than previous year. We think this is because a rise in crude throughput and our advanced refining (a new de-sulfurization unit running in full) increased the environmental loads. Concerning the economic benefit, we made 2.6 billion yen thanks to energy saving by cogeneration facilities and R&D patents.

*1 JEPPIX: A method of integrating different types of environmental loads that was developed using the background data of Japan. It employs an index called EIP (Eco Impact Point).

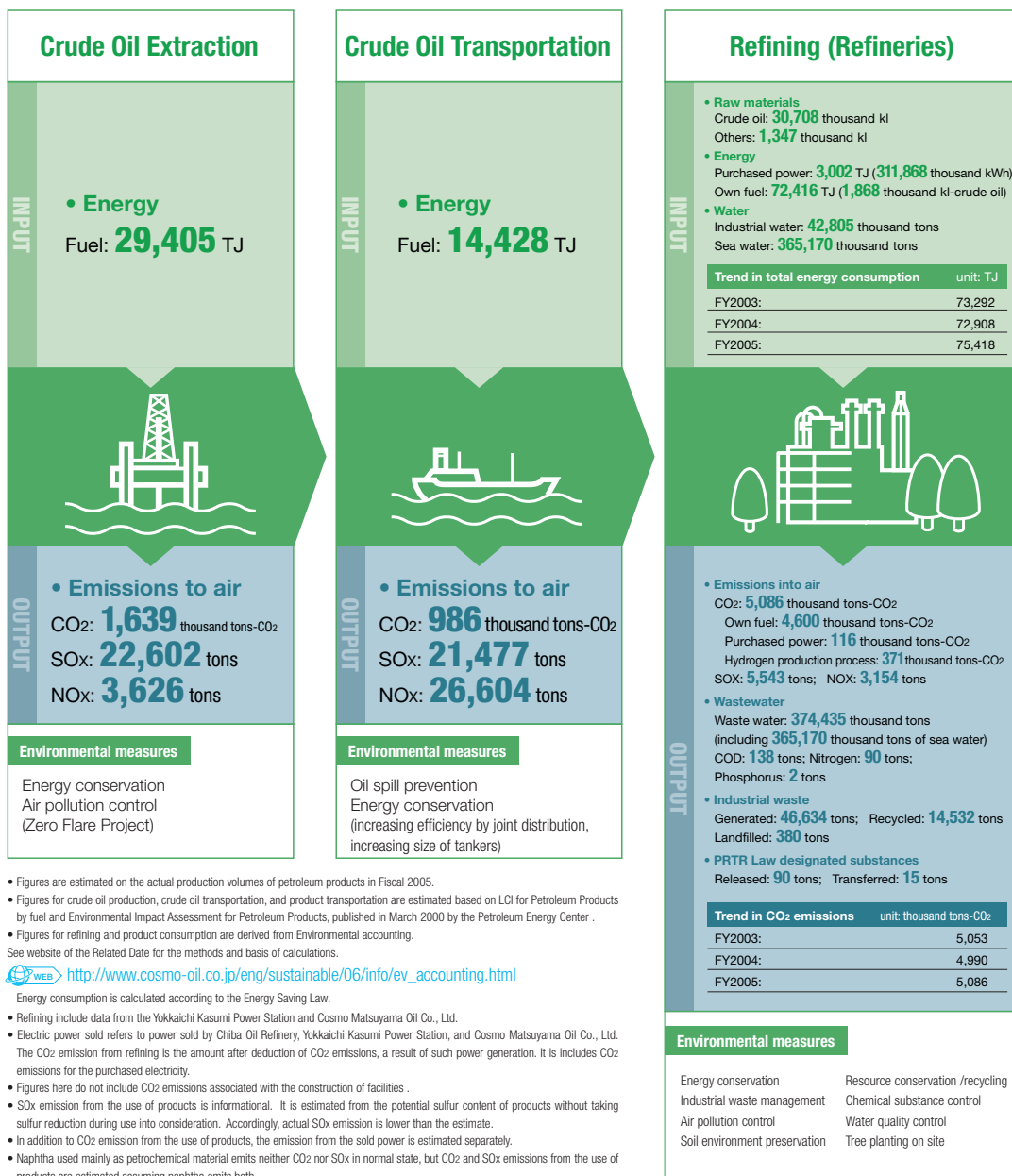


Details of Environmental Accounting
http://www.cosmo-oil.co.jp/eng/sustainable/06/info/ev_accounting.html

Environmental Impacts from Business Activities

[Web page](http://www.cosmo-oil.co.jp/eng/sustainable/06/env/lca.html) <http://www.cosmo-oil.co.jp/eng/sustainable/06/env/lca.html>

To offer products that are less environmentally damaging, we make efforts to reduce environmental impacts arising at every stage of the entire life cycle of oil, including the end stage in which our customers use our products. We not only quantify the environmental impacts arising at each stage, but also aim to pursue continuous improvements to reduce the impacts.




- Figures are estimated on the actual production volumes of petroleum products in Fiscal 2005.
- Figures for crude oil production, crude oil transportation, and product transportation are estimated based on LCI for Petroleum Products by fuel and Environmental Impact Assessment for Petroleum Products, published in March 2000 by the Petroleum Energy Center .
- Figures for refining and product consumption are derived from Environmental accounting. See website of the Related Date for the methods and basis of calculations.

http://www.cosmo-oil.co.jp/eng/sustainable/06/info/ev_accounting.html

- Energy consumption is calculated according to the Energy Saving Law.
- Refining include data from the Yokkaichi Kasumi Power Station and Cosmo Matsuyama Oil Co., Ltd.
- Electric power sold refers to power sold by Chiba Oil Refinery, Yokkaichi Kasumi Power Station, and Cosmo Matsuyama Oil Co., Ltd. The CO₂ emission from refining is the amount after deduction of CO₂ emissions, a result of such power generation. It includes CO₂ emissions for the purchased electricity.
- Figures here do not include CO₂ emissions associated with the construction of facilities .
- SO_x emission from the use of products is informational. It is estimated from the potential sulfur content of products without taking sulfur reduction during use into consideration. Accordingly, actual SO_x emission is lower than the estimate.
- In addition to CO₂ emission from the use of products, the emission from the sold power is estimated separately.
- Naphtha used mainly as petrochemical material emits neither CO₂ nor SO_x in normal state, but CO₂ and SO_x emissions from the use of products are estimated assuming naphtha emits both.


Office



Environmental measures

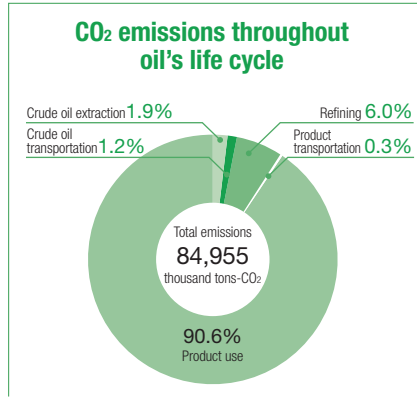
- Energy conservation
- Resource conservation/recycling
- Green procurement

Laboratory



Environmental measures

- Energy conservation
- Resource conservation /recycling
- Industrial waste management
- Chemical substance control
- Water quality control




Product

- Production**
31,027 thousand kl
- Sulfur recovered**
257 thousand tons (by-product)
- Electric power sold**
1,102,338 GWh (10,759 TJ)
- CO₂ Sold**
144 thousand tons-CO₂

Product Transportation and warehousing (oil depots)

INPUT

- Energy**
Fuel: **3,664** TJ



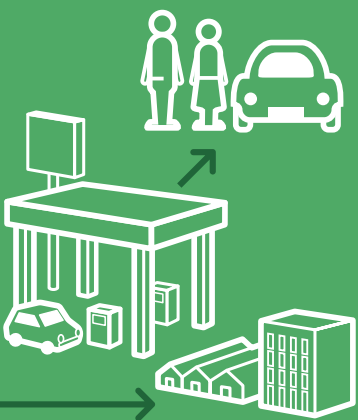
OUTPUT

- Emissions to air**
CO₂: **229** thousand tons-CO₂
SOx: **1,970** tons
NOx: **3,814** tons

Environmental measures

- Maritime transportation (ships)
Oil spill prevention
Energy conservation (increased efficiency through mutual accommodations, larger tankers for coastal routes)
- Land transportation
Energy conservation (large vehicle and high storage rate)
- Stockpiling (oil depots)
Energy conservation Resource conservation
Chemical substance control
Soil environment preservation
Oil spill prevention

Product use



OUTPUT

- Emissions into air**
CO₂: **77,015** thousand tons-CO₂
(This does not include CO₂ emissions of 761 thousand tons-CO₂ associated with generating electric power sold)
SOx: **160,298** tons

Trend in CO₂ emissions unit: thousand tons-CO₂

Fiscal Year	CO ₂ Emissions (thousand tons-CO ₂)
FY2003	75,171
FY2004	73,452
FY2005	77,015

Environmental measures

- Service stations
Energy conservation
Industrial waste management
Air pollution control
Soil environment preservation
- Resource conservation /recycling
Chemical substance control
Water quality control

Governance Aspect

Environmental Aspect

Social Aspect



Oil's Life Cycle Inventory (LCI)
<http://www.cosmo-oil.co.jp/eng/sustainable/06/env/lca.html>

Prevention of Global Warming

Web page http://www.cosmo-oil.co.jp/eng/sustainable/06/env/gl_warming.html

We are taking on various initiatives to prevent global warming by promoting energy conservation at all stages of our business.

Policy on activities

The Cosmo Oil Group, which produces and sells petroleum products, is responsible for addressing global warming. Our refineries, which emit more than 60 percent of the total amount of CO₂ emitted by the Cosmo Oil Group, are taking on energy conservation initiatives in order to attain the target of reducing unit energy consumption by 15% by FY2010 from the FY1990 level. Meanwhile, the logistics department is devising an efficient delivery method and the service stations have introduced solar cell panels to promote energy conservation. In addition, we are going to use the Kyoto Mechanisms to take the efficient measures against global warming problems. Along with these activities, we are making a strong effort on environmental contribution activities beyond corporate boundaries to aim for the prevention of global warming (see page 28).

Activities at refineries

Our oil refineries are making efforts to save energy by introducing high-efficiency equipment and improving the operation control.

In FY2005, we introduced high-efficiency equipment, such as inverter-controlled motors and automatic capacity control for compressors. In addition, we reduced fuel and steam consumption by optimizing the operation of furnaces and strictly controlling the volume of steam necessary to refine crude oil and semi-products and to heat oil in tanks.

These activities attained the unit energy consumption*¹ of 8.96 kl-crude/1,000 kl in FY 2005— 13.5% cut from the FY1990 level. This result exceeds the target (10% cut from the FY1990 level by FY2010) set by the Petroleum Association of Japan.

*¹ Unit Energy Consumption: This is expressed as the total energy consumption divided by crude equivalent throughput taking into account the complexity of refining techniques. The unit is kl-crude/1,000 kl. Note that since the total energy consumption is converted to the corresponding amount of crude, the unit is kl-crude.

Kyoto Mechanisms

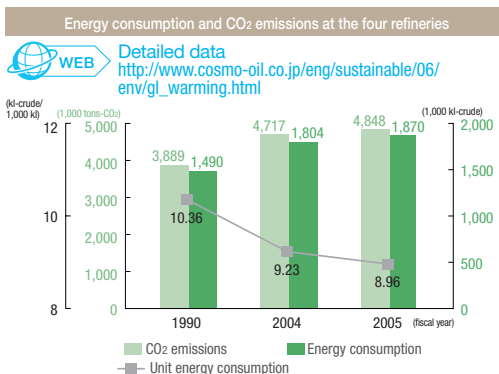
Emission trading for greenhouse gases which is represented by Kyoto Mechanism is the framework for addressing the global warming problem efficiently and effectively on the basis of international cooperation. To reduce the greenhouse gases, the Cosmo Oil Group participated in GG-CAP*¹—a mechanism for acquiring carbon credits of 1 million tons of CO₂ arising from CDM*²/JI *³projects, using the first private scheme for buying carbon credits set up by Natsource.

- *¹ GG-CAP: Scheme for acquiring emission credit operated by a subsidiary of Natsource, an organization specialized in emissions trading.
- *² CDM (Clean Development Mechanism): One of the Kyoto Mechanisms that allows industrialized countries to generate emission credits through investment in emission reductions projects in developing countries.
- *³ JI (Joint Implementation): One of the Kyoto Mechanisms that allows developed countries to invest in other developed countries to earn carbon allowances which they can use to meet their emission reduction commitments.

Activities at the service stations

One of solutions for realizing service stations that are more environmentally-benign is to install solar cell panels. Currently, 37 service stations use solar energy.

▼ Graph 1



Initiatives in logistics

The Cosmo Oil Group has long been pursuing energy conservation by improving efficiency in logistics. Since FY2006, the Law Concerning the Rational Use of Energy was amended to define owner's liability clearly. We will continue to pursue energy conservation without hampering the safety and reliability of transportation.

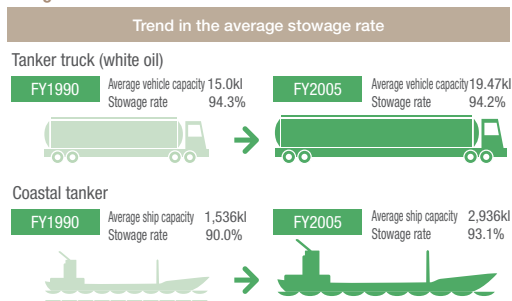
Land transportation: Tanker trucks

Employing large trucks and maintaining a high stowage rate resulted in 30% rise from the FY1990 level of transportation volume per vehicle. For further energy conservation, we will promote efficiency while mainly focusing on planning delivery and independent delivery.

Domestic marine transportation: coastal tankers

Coastal tankers used to deliver our products and semi-products between our sites are affected by the running status of refineries, and by weather conditions. In order to prevent marine accidents, to reduce impacts on the environment, and to reduce energy consumption, we will continue to employ large tankers and maintain a high stowage rate.

▼ Figure 4



C O L U M N

Preventing impacts associated with crude oil transportation on the marine environment

Ballast water

In navigating without load from oil-consuming countries to oil-producing countries, crude tankers hold seawater inside as a ballast to make the body stable, and discharge it before crude oil is loaded. To protect the coastal ecosystem of oil-producing countries from pollution, we discharge the ballast water off the coast according to their regulations and requirements.

Double-hull structure

The Cosmo Oil Group employs 10 VLCCs (Very Large Crude Carriers) with double-hull structure under a long-term charter, as protection against accidents. These tankers have the double hull structure having inner and outer hulls, which prevents the inner crude tank from being damaged should the ship body be breached and prevent oil leaks.



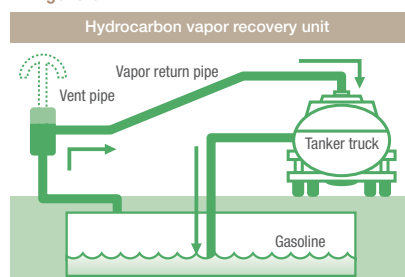
Trend in double-hull tankers regularly chartered (ratio)
http://www.cosmo-oil.co.jp/eng/sustainable/06/env/gl_warming.html

Environmental measures at service stations

Introducing hydrocarbon vapor recovery unit

Hydrocarbon vapor is vaporised during unloading from a tanker truck. To prevent it from being diffused, we promote the installation of hydrocarbon vapor recovery units.

▼ Figure 5



Pollutants and Waste Management

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/env/response.html>

We aim to reduce environmental impacts by properly controlling pollutants, and minimizing and recycling industrial waste.

Policy

Our refineries discharge exhaust gases controlled by the Air Pollution Control Law and wastewater controlled by Water Pollution Control Law chemical substances specified in the PRTR law. The Cosmo Oil Group aims to control them appropriately and reduce environmental impacts. When we install large equipment or conduct large scale engineering work, we conduct environmental impact assessments.

Concerning industrial waste, we set our targets to reduce the waste generated, and reduce and recycle excess sludge.

Challenge to achieve zero industrial waste

Reducing industrial waste at refineries

In FY2005, refineries started dehydrating and incinerating sludge, which is to be used as a raw material for cement production, and also started recycling plastic and wood waste into solid fuels. These activities resulted in 340 tons of total landfill at the four refineries in FY2005, which corresponds to the landfill rate of 0.8%. This rate was well below the target of 1% specified in the Consolidated Medium-Term Environmental Plan.

Reducing excess sludge

Excess sludge discharged from wastewater treatment facilities commands a top share of industrial waste in Japan. At our refineries, about 56% of industrial waste is sludge, so its treatment is very important.

We have been researching*1 technologies for reducing excess sludge generated at our refineries, and have reduced a large part of it at the Chiba and Sakaide Refineries.

*1 The research was carried out as a project supported by the Japan Petroleum Energy Center.

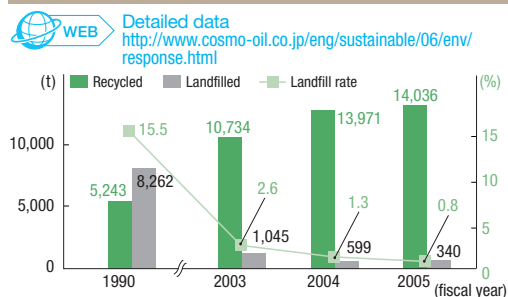
Measures against asbestos

In FY2005, we checked whether asbestos was used in buildings at our service stations and refineries that the Cosmo Oil Group either owns or rents. As a result, we found 16 places where sprayed asbestos was exposed. We will remove them completely by the end of FY2006.

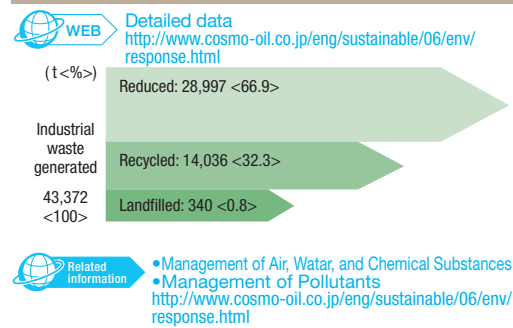
In addition to the sprayed form, asbestos is contained in building materials including slates, or in heat insulators installed in manufacturing equipment. We think that no asbestine powder is emitted from them in normal use because they are molded products, but we will replace them with asbestos-free materials at the time of repairs.

For other asbestos-bearing products, we take measures according to the applicable laws.

▼ Graph 2
Trend in industrial waste at the four refineries



▼ Graph 3
Flow of Industrial waste at the four refineries



Soil Environmental Preservation

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/env/soil.html>

We endeavor to prevent soil contamination, and in case we detect any oil leaks, to minimize the impacts on the environment by prompt actions.

Concept

"Soil environmental preservation" is one of the most important themes in the Consolidated Medium-Term Environmental Plan. Since August 2004, the Safety and Environment Control Dept. has promoted activities for soil preservation efficiently and systematically. To reduce the risk of contaminating soil, particularly at service stations, we take preventive actions and minimize the effect on the environment if oil spills into soil. In FY2002, we conducted interviews with all the service stations that Cosmo Oil owns about their operating status. Based on the interviews, we started investigating the soil environment of the service stations that Cosmo Oil owns, starting with the service stations that have a higher risk profile, e.g. those that have old facilities such as single-hull tanks. We also gave instructions to our dealers as necessary. We investigated soil at about 180 service stations in FY2005, and subsequently plan to investigate around 100 to 140 service stations per year. In FY2005, about 700 million yen was incurred for these soil conservation measures at our service stations and other sites.

Early detection of soil contamination at service stations and preventive actions

Reinforcing the facilities

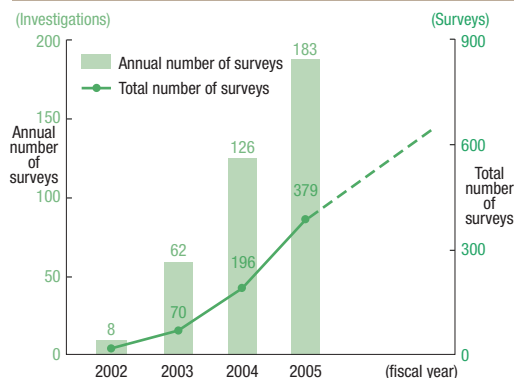
We install facilities with an extremely low risk of a leak at new service stations, such as double-hull tanks to prevent oil leak, and resinous pipes not subject to corrosion. We are also working hard to upgrade facilities and equipment of old service stations by changing pipe materials, reinforcing pipes, or using an electrical anti-corrosive treatment.

Education

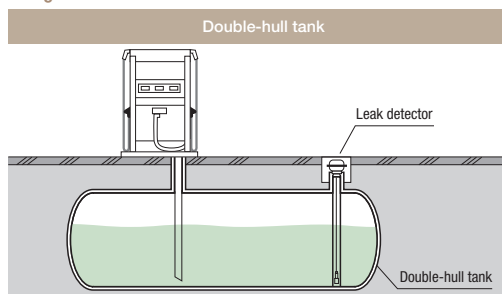
To improve the awareness of soil environmental preservation, we make sure that all the operators of all our service stations take the training course of SS risk management. In this training, we provide examples of soil contamination and how to carry out daily checks to raise their awareness. We also conduct environmental management point inspections to check the status of control (see page 18).

▼ Graph 4

Trend in the number of soil investigations at our service stations



▼ Figure 6



COLUMN

Action after a service station is closed

When a service station owned by Cosmo Oil is closed down due to a change of the owner or operator, we always conduct a soil investigation at the site. If any contamination is detected, we properly improve the soil by means of recycling or bio-remediation.

Environmental Preservation Action and Communication

[Web page](http://www.cosmo-oil.co.jp/eng/sustainable/06/env/communication.html) <http://www.cosmo-oil.co.jp/eng/sustainable/06/env/communication.html>

We aim to contribute to the sustainable development not only through our business activities but also through activities outside our business in partnership with our stakeholders.

Policy

We regard environmental conservation activities and environmental communication as the two most important building blocks of the Cosmo Oil Group's sustainable management.

We think that contributing to and cooperating with society, not only through our business activities but also through activities outside our business is the first step to realize a sustainable society.

It is important to take actions in partnership with as many people as possible when we try to help realize sustainable development.

We aim to promote environmental preservation activities throughout our communities by means of actions and environmental communication— helping society and our employees raise their awareness of the environment by communicating environmental issues as well as our policies and initiatives.

“Office Clean Activities” involving all personnel

We promote “Office Clean Activities” throughout the Group. In these activities, we follow the 3R (Reduce, Reuse, and Recycle) for resources and energy, including fixtures and lighting devices always used at our offices.

In FY2005, the first year in which the group-wide activities were initiated, we set up site-based targets. In October 2005, we joined the “Team Minus Six Percent,” an activity for preventing global warming promoted by the Japanese government.



Separate collecting boxes for recycling paper installed in the head office

Green purchasing with our suppliers

Green purchasing

We set internal criteria of green purchasing for a wide range of products ranging from office supplies to catalysts, containers, and building materials. We plan to increase the number of specified articles and to elaborate the criteria.

Green suppliers

We ask our suppliers to agree with Cosmo Oil Group's sustainability management. We also set up criteria for 'green suppliers' so that our suppliers can employ environment-conscious management and raise their awareness. Almost all the suppliers (about 500 companies) cooperate with us.

▼ Table 1

Targets and results of Office Clean Activities

 [Detailed data](http://www.cosmo-oil.co.jp/eng/sustainable/06/env/communication.html)
<http://www.cosmo-oil.co.jp/eng/sustainable/06/env/communication.html>

	Results in FY2005		Medium-term target in FY2007		
	Cosmo Oil Increase/decrease from FY2003	Affiliates* Increase/decrease from FY2004	Cosmo Oil Increase/decrease from FY2003	Affiliates* Increase/decrease from FY2004	Consolidated* Increase/decrease from FY2004
Copy paper	△ 9%	1%	△ 16%	△ 14%	△ 11%
Fuel consumption of company cars	△ 18%	△ 9%	△ 18%	△ 12%	△ 9%
Electricity consumption in the offices	△ 8%	△ 3%	△ 10%	△ 11%	△ 5%

* Since many affiliates joined these activities in FY2004, the base year for the affiliates is FY2004.

* △ :Minus(Decrease).

Overseas cooperation

In order to support the sustainable development of the Middle East oil-producing countries, from which we import crude oil, and of other emerging countries, which have a huge growth potential, and to maintain and establish a good relationship with them, the Cosmo Oil Group provides them with technical assistance and promote human and cultural exchanges.

Exchange of human resources

In FY2005, with a financial support from Japan Cooperation Center, Petroleum (JCCP), we had 32 programs for 156 trainees in total from oil-producing countries, particularly from the Middle East. We also dispatched experts overseas on 26 occasions, involving 86 experts in total, to provide technical assistance in a variety of fields, such as the environment, energy conservation, and refining.

Receiving the staff of the Oil Ministry, Papua New Guinea

Cosmo Oil has had a good relationship with Papua New Guinea through the activities for contributing to the environment. We started providing technical assistance to Papua New Guinea through accepting public officials from Papua New Guinea as trainees upon a request from the Japanese Ministry of Foreign Affairs. The trainees say that they learned not only about the environmental, health and safety management, but also experienced Japanese culture, customs, and a variety of systems.

Training course for Qatar Petroleum

In cooperation with our staff members working at Cosmo Engineering as well as at the Chiba and Sakai Refineries, we accepted five engineers from Qatar Petroleum, and provided them with a training on oil refining technologies.

The engineers attended lectures and received on-the-job trainings at refineries to learn, among others, on energy management, profit improvement, and catalyst management. In this period, they had active talks with our engineers.

Technical exchange with Persian Gulf countries

Cosmo Oil and Kuwait, which commands over 8% share of the crude oil imported by Cosmo Oil, have been promoting technology exchanges according to the mutual agreements. Our four experts visited the Mina Abdulla Refinery to exchange information about energy conservation and environmental technologies, and lubricant control. We also accepted engineers from Kuwait for a technical exchange in FY2006.

In 2001, we gave a training course to the Bahraini government-owned oil corporation BAPCO in Japan, but subsequently, the exchange was discontinued due to changes in Bahrain's domestic situation. In December 2005, we visited a refinery in Sitra, the only operating refinery in Bahrain, to restart the technical exchange and to have talks about the exchange in FY2006. We hope that we will continue to have a good relationship with Kuwait and Bahrain through the technical exchanges.



Overseas trainees at the Cosmo Research Institute



Trainees accepted and engineers dispatched
<http://www.cosmo-oil.co.jp/eng/sustainable/06/env/communication.html>

Environmental Awareness Raising



Details of environmental awareness raising activities
<http://www.cosmo-oil.co.jp/eng/sustainable/06/env/communication.html>

There is a limit to what only one company can do against the environmental problems. We make efforts to raise awareness of the environment, recognizing that everyone living in society needs to be aware of these problems and cooperate with each other.

Communicating our activities

- Our environmental advertisements "Something Good for the Earth" and "A Letter of Appreciation from PNG (Papua New Guinea)" were awarded an excellence prize in the advertisement category, the 54th Nikkei Advertising Awards held by Nihon Keizai Shimbun Inc.
- We made and released the Internet movie "Ken Noguchi Ogasawara Environmental School" as a Cosmo Oil Eco Card Fund project.
- We publish the environment and culture magazine "TEREE."
- We enforce "Cosmo Earth-conscious Act" to promote global environment preservation (in collaboration with 38 broadcasting stations joining Japan FM Network).

Fostering awareness of global warming prevention

We make efforts to raise awareness about the prevention of global warming, closely related with petroleum. In FY2005, we developed an experimental CO₂ absorber with Waseda University. We exhibited and demonstrated it at Expo 2005 Aichi Japan, Ecoproducts 2005, and at the National Museum of Emerging Science and Innovation. In addition, we con-



Experimental CO₂ absorber

ducted the 4th CO₂-free gasoline and diesel oil campaign with CO₂ absorption certificates for members of COSMO THE CARD ECO in December 2005.

Action with many people

To publicize the "Cosmo Earth-conscious Act," we have been conducting "Clean Campaign," a cleaning activity while getting acquainted with nature, since 2001.

As of July 2006, we collected more than 1,561,537 liters of waste with a participation of 82,756 people at 208 sites throughout Japan.

C O L U M N

Environmental education for the next generation

Hoping that children will grow up to be responsible citizens who care for the environment, we support education for the next generation, particularly environmental education, by providing both tools and opportunities. The following describes some examples.



Offering educational tools

- We give copies of the "Earth Environment Book" to schoolchildren.
- We have opened the website*1 "Cosmo Children's Earth School—Econets" where adults and children learn about the environment together.

Offering educational opportunities

- We hold the "Nature Art Workshop for Kids" where children raise their awareness of the environment by experiencing nature and creating works of art.
- We support environmental education for elementary schools all over Japan*2.
- We hosted a series of environmental seminars to train environment messengers*2.

*1 This website is only in Japanese.

*2 These activities are supported by the Cosmo Oil Eco Card Fund.

Cosmo Oil Eco Card Fund

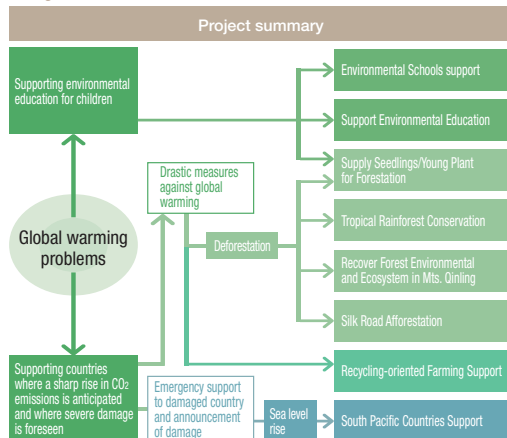
What is the Cosmo Oil Eco Card Fund?

We conduct activities to address global environmental problems with financial contributions from members of the COSMO THE CARD ECO who are concerned about the environment as well as those from the Cosmo Oil Group

Policy

With our slogan "Living with Our Planet," we carry out activities to address global issues such as 'global warming', which is largely caused by the burning of petroleum products, 'poverty', 'hunger', 'development/consumption patterns', and 'education', with a belief that it is always important to tackle root causes of the problems. Our funding members have talks with the local communities or governments to initiate a project in partnership with NGO/NPO having thorough knowledge of the corresponding areas. Meanwhile, we actively promote activities for raising the environmental awareness in order for as many people as possible to know about how serious environmental problems, and to expand the environmental preservation networks.

▼ Figure 7



• Tropical Rainforest Conservation Project

This project, which, as the first step to conserve tropical rainforest, has aimed to spread the use of circulative agriculture in a fixed place instead of shifting cultivation, entered its fifth year in FY2006. In the Solomon Islands, about 50 trainees finished a six-month training course at a model farm, including the clearing of a wasteland. They are expected to return to their hometown and spread the circulative agriculture.



Trainees planting upland rice seedlings

• South Pacific Countries Support Project

In the Republic of Kiribati, which is facing a crisis due to the rising sea level, we planted mangroves to prevent the coastline from being eroded. We started this project in FY2004, made preparations with the Kiribati people, such as a vegetation survey and seed selection, and finally carried out mangrove planting in September 2005. On that day, about 360 people, including local children and residents and government officials, planted about 4,800 seedlings. We will continue this project and try to mitigate disasters caused by climate changes.



Children learning how to plant mangroves



Social Aspect

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Filling Up Your Hearts, Too

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/soc/index.html>

Many stakeholders support the Cosmo Oil Group.
We describe our FY2005 activities according to different stakeholders.

Relationship with our Stakeholders

Customers

We are listening to our customers and working to provide valuable services including improved levels of service, establishment of safety, etc.

International Communities

In the way that international communities including developing countries keep developing sustainability, the Cosmo Oil Group is promoting joins various international cooperation such as climate change prevention, not only in our facilities but also outside.

Oil Producing Countries

Our ties with our long-standing business partners are not limited to crude oil trading. We have been working on conservation of the environment and promotion of safety management technologies in these oil producing countries using our human and technological resources. We also develop human resource and cultural exchanges.



Company Staffs

We regard respect for human rights as the foundation of our corporate activities, and endeavor to provide a more attractive work environment in which our company staffs can not only work safely and comfortably but also realize their potential.

Communities

As a constituent member of communities, we also promote and support community activities such as cleaning and local events.

Shareholders, Investors

We issue our quarterly newsletter "C's Mail" to shareholders, annual reports, and fact books, etc. and timely information disclosure on our website.

Working with our Employees

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/soc/employee.html>

Every employee supports the company.

We aim to create a working environment in which all the employees are aware of their social duties through their work, and bring their ability into full play.

Consolidated Medium-Term Human Rights/Affairs Plan



Details <http://www.cosmo-oil.co.jp/eng/sustainable/06/soc/employee.html>

In FY2005, we drew up the "Consolidated Medium-term Human Rights/ Personnel Plan," and have conducted activities in the following six areas: human rights, respect for diversity and equal opportunity, health and safety, welfare, education and ability development, guarantee and creation of employment.

The purpose of this plan is to carry out personnel affairs based on the respect for fundamental human rights, to create a "Fair and Better Working Environment" on the basis of respect for diversity and by defining humans as a keyword, and to stimulate the employee motivation.

Human rights

On February 7, 2006, we expressed our support to the United Nations Global Compact . It defines 10 principles for solving international problems in human rights, labor, environment, corruption, and so on.

We have held a training course for the top management of the Cosmo Oil Group, regarding the respect for human rights. It was titled "CSR and Human Rights." We also conducted another training at each site, and the number of participants increased significantly. We also assigned persons in charge of the group's promotion body for the reinforcement of promotion structure.



Activities for the Global Compact http://www.cosmo-oil.co.jp/eng/sustainable/06/gl_cp.html

Respect for diversity and equal opportunity

Aiming at workplaces where women can work actively, we maintain fair employment. For example, we appointed two female engineers at refineries and employed three female employees as sales representatives.

The employment rate of the handicapped is 1.9 percent, which exceeds the regulatory rate of 1.8 percent. In order for the handicapped to be able to work comfortably in the Cosmo Oil Group, we have worked to improve the awareness of staff members, to create a good working environment, and to promote normalization.

We set up a rule that allows employees that meet certain conditions to choose where they work. This aims to provide employees with a stable private life and comfortable working environment by lightening their burdens related to the child care, education, and nursing.

Health and safety

As part of mental health care, we checked about 3,000 staff members working with a PC for stress in October 2005.

Nearly 100 percent of employees and seconded employees working for the Cosmo Oil Group turned up for the regular health examinations. In addition, we provide health care services, such as the industrial doctor's health guidance and "Hello Health Consultation 24" in collaboration with the health insurance association.

To prevent overworked employees from having health problems, we instruct them to turn up for health checks and receive guidance from doctors, under a general supervision of the "Labor Hours Control Meeting".

▼Table 2

Number of employees

As of March 31, 2006

		Male	Female	Total
Cosmo Oil	Employees	1,222	169	1,391
	Management	312	2	314
	Others*	13	0	13
	Subtotal	1,547	171	1,718
Affiliates	Employees	1,160	119	1,279
	Management	424	1	425
	Others*	19	0	19
	Subtotal	1,603	120	1,723
Total		3,150	291	3,441

* Seconded employees and full-time staffs for the labor union.

▼Table 3

Employment of the handicapped (data submitted to Ministry of Health, Labor and Welfare in June 2006)

	June 1, 2005	June 1, 2006
Handicapped	42	43
(of which, handicapped with a high degree of disability)	19	21
Handicapped employment rate*	1.8%	1.9%
Number of the handicapped still to be employed	0	0

* Regulatory employment rate: 1.8%. (Round figure at the second decimal.)

Welfare

According to the "Law for Measures to Support the Development of the Next Generation" enacted in 2003, we submitted a "General Business Owner's Action Plan" to the Ministry of Health, Labor, and Welfare in April 2005. The plan describes how to improve our work environment so that employees can well balance child care and work, and aims to achieve, among others, the target of at least one male employee and more than 70% of the eligible female employees taking child care leave.

Our employees are now allowed to take child care leave until their child grows up to 1.5 years old, provided that they cannot find a nursery or their spouse is ill, etc. As for the maternity leave granted to male employees whose wife is on maternity, we extended the period from three to five days, which exceed the regulatory period.

To encourage all the personnel to have a leisure time, we conduct campaigns to promote the use of summer holidays and achieve a vacation-taking rate of about 70 percent.

Education and ability development

In FY2000, we introduced an "In-house Recruiting System" that allowed any employees to apply for jobs offered by other departments or affiliates without having to give notice to their superior. In FY2005, there were jobs offered by 12 departments and six employees successfully found new positions.

Regarding our education system based on the position-based training, we added a CSR training course to the conventional ability development training. This mandatory course includes training in environmental

issues, respect for human rights, and corporate ethics (compliance).

We now provide financial support to employees who take correspondence courses and external training courses as part of our support for personnel development.

Guarantee and creation of employment

According to the "Law concerning Stabilization of Employment of Older Persons," we started a "re-employment system" on April 1, 2006. This system replaces our existing re-employment support program and allows the elderly individuals to be rehired in the Cosmo Oil Group.

Apart from "life design training", which employees take at the age of 55 well before they retire, we provide "second career training" in order to support re-employment. Participants in the "second career training" who wish to be re-employed after retirement, can learn how to write CVs and tips for interviews.

Management and labor

Our labor-management contract states that the management and the labor union shall meet for discussions before any work conditions, such as employees' positions and employment, are altered. The top management and the labor union gather and discuss in regular meetings and in a variety of committees at the headquarters or at individual sites. In addition, we have set up the "Workshop for optimum working hour management" so as to prevent health problems due to overwork, to control labor hours appropriately, and promote the compliance with the 36 Agreement and the acquisition of holidays.

▼ Table 4

Number of employees who take maternity and child care leave, and who take the reinstatement support course

	FY2004		FY2005	
	Female	Male	Female	Male
Maternity leave	8	0	6	0
Child care leave*1	6(12)	0	8(11)	0
Reinstatement support course*2	4	0	3	0
Infant care leave rate	88%	-	100%	-

*1 Number of employees who applied for a leave in FY2005. The figure in parentheses shows the number of employees who took a leave in FY2005.

*2 Since the figures in the last report contained an error, we now restate figures for FY2004.

C O L U M N

Health examinations for asbestos

The Cosmo Oil Group manufactures no asbestine products, but asbestos-bearing insulators are used in the refineries. Accordingly, since FY2005 all the personnel undergo an annual chest X-ray, and employees are instructed to consult with the doctor during the visit if they are worried about health problems related to asbestos.

To find asbestos-induced diseases at the early stages, we also conduct a special health examination, recommended even for the retirees.

Relationship with our Customers

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/soc/customer.html>

To make sure that the slogan “Filling Up Your Hearts, Too” applies to every customer, we aim to offer reliable and safe service.

**“Filling Up Your Hearts, Too”
for our customers**

Diagnosis of services at our service stations

We instruct our service stations to follow the four basic requirements: friendliness, cleanliness, high quality, and a feeling of security. To check whether the requirements were met at a high level, we conducted a survey from the customer's point of view six times in FY2005. We analyzed the survey results and fed them back to each service station to make improvements.

Measures against accidents

Because they handle hazardous materials including gasoline, service stations are constructed according to the fire defense law.

As preparation for earthquakes, we are always ready to check all the facilities of our service stations and to safely supply energy to the local customers. If the seismic intensity is five or more, affected service stations ensure safety by checking the plumbing system of the underground tank for leaks, and by performing a pressure test.

We implement safety measures considering two aspects: preventive actions against disasters, and contingency planning to minimize the damage.

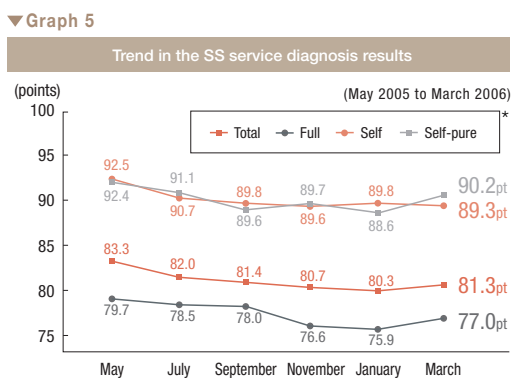
Customer center activities

In October 2000, we opened the “Cosmo Customer Center” to enable two-way communications with our customers. In FY2005, the center received about 3,800 comments and complaints from our customers by free telephone or e-mail. We make efforts not only to collect, classify, and analyze them and respond to them properly, quickly, and politely, but also to inform the departments concerned of the customer requests as soon as possible. Such comments and requests are very helpful for us to improve our services and processes, and customer satisfaction.

Ensuring the product reliability and the reliability promotion system

In order to not only ensure safety and reduce environmental loads, but also to offer products that meet customers and social needs including the sense of usability, the Cosmo Oil Group defines guiding principles on quality in “Chapter 1: Relation with Consumer/User” of the Corporate Activity Guideline,” and works on how to develop high-quality products. In addition, we have formed three organizations: “Quality Assurance Committee,” “Quality Assurance Liaison Committee,” and “Quality Assurance Meeting” at the headquarters. The first makes decisions on QA promotion plans and other programs related to quality. The second and third committees set up at the headquarters as subcommittees of the first implement QA functionally and quickly. These organizations always help different departments communicate with each other in order to improve the quality of products and to ensure reliability.

Our refineries are certified with ISO 9001, the international standard for quality management system, for our main products. We will make efforts to improve the quality, while regarding safe production as quality.



* Full: Full service, Self: Self service, Self-pure: Self service at low cost operation

Related information

- COSMO THE CARD
- Self service station
- Auto B-cle network
- PP (Privacy policy) point

<http://www.cosmo-oil.co.jp/eng/sustainable/06/soc/customer.html>

Relationship with our Stockholders and Investors

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/soc/ir.html>

We aim to disclose timely and accurate information to our stockholders and investors, and to improve corporate management practices.

Status of our stockholders

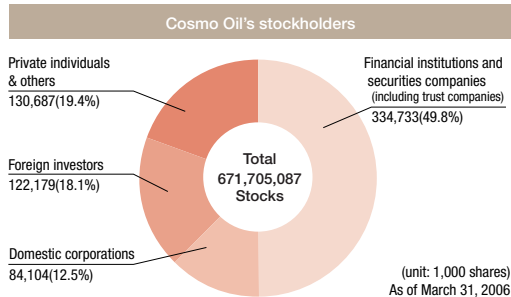
At the end of March 2006, our stockholders consist of financial institutions (including trust companies) and securities companies (49.8% of our outstanding capital stocks), private individuals and others (19.4%), foreign investors (18.1%), and domestic corporations (12.5%). In order for the stockholders and investors to fully understand the outline of Cosmo Oil and our business strategies, we promote IR activities through media, opportunities, or tools that meet their needs.

SRI information

There is a growing interest in Social Responsible Investment^{*1}, which is a generic term for investments where investors decide which companies to invest in, not only taking into account the investee's financial performance, but also its environmental and social performance. Cosmo Oil has been listed in the "FTSE4 Good Global Index" since March 2003 and in the "Morningstar Socially Responsible Investment Index" since July 2003, and is also incorporated into multiple SRI funds.

*1 SRI (Social Responsible Investment) funds: Funds that invest in companies that discharge their social responsibilities with regard to social justice, ethics, environment, consumers, employees, and local communities.

▼ Graph 6



* In the number of stocks and the Ratio of holding shares, the small size stockholders are included.

Communication

Basic policy of our IR activities

The basic policy of our IR activities is to build up a relationship of long-term mutual trust with our stockholders and investors by disclosing our management philosophy and policies, financial status, and business strategies at the right time.

Further understanding of Cosmo Oil

We not only issue annual reports and quarterly stockholder reports, but also disclose information on our. We also prepare a web page to present a motion picture of the stockholder's meeting and all documents distributed, and another web page for a wide range of private investors to familiarize them with our company. Consequently, external agencies (including IR support companies) investigating IR web pages evaluate us highly.

We send questionnaires to our stockholders via the stockholder report "C's Mail" and fed their opinions back to the management and reflect them in the contents of reports.



Related information <http://www.cosmo-oil.co.jp/eng/ir/index.html>

Relationship with International Communities and Oil-producing Countries

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/soc/international.html>

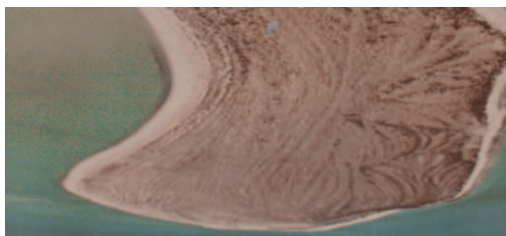
As a member of the international society, we exchange human resources, cultures, and technologies with developing and oil-producing countries beyond the framework of our business.

Exchange of cultures

The overseas offices of the Cosmo Oil Group have a good relationship with the local communities through the various contribution activities closely related to their needs, such as charities and environment preservation programs.

Examples of activities

Cosmo Oil UK makes a donation to St. Elizabeth's Center every year. The center was established more than 100 years ago to nurse and protect the handicapped, such as epileptic and autistic people. Our contributions in FY2005 assisted the education of young people at the school adjacent to the center. Meanwhile, Abu Dhabi Oil makes efforts to preserve the environment of local communities. In 1983, it started planting mangroves on an uninhabited island, which was finally changed to a green island. Abu Dhabi Oil also protects ospreys and installs artificial fish reef for local environment preservation.



Desert island (before mangroves were planted)



Green island (after mangroves were planted)

Relationship with oil-producing countries

Cosmo Oil makes efforts to maintain a good relationship with oil-producing and developing countries while taking advantage of a training service system offered by Japan Cooperation Center, Petroleum (JCCP), to exchange technologies with them.

Examples of activities

In 2005, we exchanged technologies with 30 organizations (national oil refining companies and petroleum-related laboratories) in 18 countries, such as the UAE, Qatar, Oman, China, and other Middle East and Asian countries. We received 156 overseas trainees and dispatched 86 of our engineers for training. We provide the training in a variety of fields, such as refining technology and sales control, but in recent years, our counterparts have been increasing their requests for training in technologies aimed at preserving the environment and energy conservation. In addition to providing trainings, we help oil-producing countries construct and run plants in collaboration with engineering companies, such as JGC Corporation and Chiyoda Corporation. In July 2005, we started supporting the construction of the Sohar Oil Refinery, an environmentally friendly and second-ranked refinery in Oman. It was completed by August 2006. We will also start up the latest Residue Fluid Catalytic Cracking Unit at the refinery. Our technologies have been highly appreciated by counterpart countries.

 **Track records of domestic and overseas training**
<http://www.cosmo-oil.co.jp/eng/sustainable/06/env/communication.html>

Social Contribution Activities

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/soc/contribute.html>

For sustainable development based on symbiosis among the planet, humans, and society, we carry out social contribution activities with the following themes: “education of children who will be part of the future society,” “the preservation of the global environment—the foundations of a human society that can persist well into the future,” and “the formation of a peaceful, mind-rich, and cultural society.”

Concept



Details of social contribution activities
<http://www.cosmo-oil.co.jp/eng/sustainable/06/soc/contribute.html>

Basic policies

- Activities unique to Cosmo Oil
- Full personnel participation
- Long-time continuation independent of our business status

Activities

- To educate children who will be part of the future society.
- To preserve the global environment—the foundations of a human society that can persist well into the future.
- To form a peaceful, mind-rich, and cultural society.

In 1992, we specified the basic policies and started company-wide social contribution activities. In 1993, we held the first nature experience program “Cosmo Waku Waku Camp,” which was voluntarily attended and run by our staff members.

Since then, we have carried out a variety of next-generation education programs with the participation of our staff members, while taking full advantage of accumulated know-how and building a partnership with NPOs involved in leading activities in various special fields.

We continue the activities while adding new programs, which improves internal and external understanding and awareness, and which help us achieve mental maturity regarding our contribution to society.

• Cosmo Waku Waku Camp

This is a nature experience program lasting three days and two nights for schoolchildren orphaned by road accidents.

Our staff members learn safety control and psychological child care in advance, and run this program.



Photo of 14th Cosmo Waku Waku Camp

• Art Program for Daddies and Kids

To support fathers rearing their children, the branch offices of Cosmo Oil run the program, “Art Program for Daddies and Kids,” in cooperation with the local governments (public facilities) all over Japan. The purpose of this program is to contribute to the local communities.



MAYA MAXX, a facilitator, and participating children

Third-Party Comment

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/comment.html>

Upon reading the Cosmo Oil Group Sustainability Report 2006



Toshihiko Goto

Chair of the Environmental Auditing Research Group
Representative Director, Social Investment Forum Japan

The fact that Cosmo identified some violations of laws and regulations after the accident occurred at the Chiba refinery shows the presence of sound ethics and governance in the company. To take preventive action, Cosmo focuses on thorough "Compliance and Awareness Improvement." I absolutely agree with their conclusions and their clear goals. However, I believe it is still a very important issue to describe how to concretely realize such goals and to integrate them into the construction of "Fair and Better Working Environment."

It is generally said that compliance is apt to be vertical governance. It also has the risk of increasing morale hazard* because it can create an illusion among workers that safety could be guaranteed just by following laws and rules rigorously. In the Sustainability Report 2005, I wrote, "The only thing that can truly control the huge science and technology including that for oil or IT is the sense of reverent awe for something greater than human intelligence." This means that to achieve the awareness improvement mentioned above, Cosmo must let virtues such as the "sense of reverent awe" and "modesty" take root in the employees and corporate culture, which, as a result, increases the corporate value as human and organizational capital.

Since 2005, Cosmo have reformed and reinforced their governance system. Corporate ethics, CSR (Corporate Social Responsibility), internal control, and internal audits separately enhance the governance but cannot be distinguished from the corporate value point of view. Cosmo, of course, must not only conform to the new company act and financial products exchange act which are enacted recently, but must also get rid of duplicated functions except those clearly requiring double-checks, in order to refine the governance (or management) comprehensively. The explanation of the governance in the

report does not show any bottom-up communications, so I propose that they be made visible. The consolidated mid-term environment plan seems to be going well, but I regret that there was no information provided regarding approaches to renewable energy. I would like Cosmo to make a challenge to the quantitative goals of technology development and new renewable energy resources.

From a brief description of Cosmo's approach to sociality, I feel that it is substantial. It is wonderful for Cosmo to be incorporated into the SRI universe, but I will add that such position cannot be maintained without continuous performance improvement and disclosure.

My overall impression of the report is that Cosmo has drastically reviewed various activities. However, stakeholder engagement is becoming a global trend. I believe that Cosmo must first grasp expectations from stakeholders through a variety of engagements and realize such expectations by the main business, which is really the foundation of CSR—Corporate Social Responsibility. For this purpose, the virtues and culture mentioned before are important.

The report includes many cross-references to their website, which is a significant improvement about which I feel very good. However, the website is not yet completed, so I would like Cosmo to upgrade it as soon as possible. It is agreeable that the data section, which was accompanied until last year's report, has been transferred on the website. I expect that the transferred data on the website will become easier to read with more information added.

Finally, Cosmo seems to be making efforts to present information numerically—making data visible. Still, I hope that Cosmo enhances the disclosure of more numerical data including the penetration of compliance, the degree of which is being measured.

* Morale hazard differs from moral hazard.

Independent Review Report

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/assurance.html>



Independent Review Report on “Cosmo Oil Group Sustainability Report 2006”

To the Board of Directors of Cosmo Oil Co., Ltd.,

1. Purpose and Scope of our Review

We have reviewed “Cosmo Oil Group Sustainability Report 2006” (the “Report”) of Cosmo Oil Co., Ltd. (the “Company”) for the year ended March 31, 2006. Our engagement was designed to report to the Company, based on the results of our review, whether the environmental, social and economic performance indicators and the environmental accounting indicators (the “Indicators”) for the period from April 1, 2005 to March 31, 2006 included in the Report are collected, compiled and reported, in all material respects, rationally and in conformance with the Company’s policies and procedures. The indicators disclosed on the websites to which the Report refers are outside the scope of the Independent Review Report.

The Report, including the identification of material issues, is the responsibility of the Company’s management. Our responsibility is to independently report the results of our procedures performed on the Indicators.

2. Procedures Performed

We have performed the following review procedures:

- With respect to the Company’s policies for compilation of the Report, interviewed the Company’s responsible personnel.
- Assessed the Company’s procedures used for collecting, compiling and reporting the Indicators.
- With respect to the way of collecting the Indicators and the process flow of calculating them, interviewed the Company’s responsible personnel and reviewed the systems and processes used to generate the values of the Indicators.
- Compared the Indicators on a sample basis with the supporting evidences to test the conformity in collection, compilation and reporting of the Indicators to the Company’s policies and procedures, and recomputed the Indicators.
- Made an on-site inspection of the Sakaide Refinery.
- Evaluated the overall statement in which the Indicators are expressed.

3. Results of the Procedures Performed

Based on our review, nothing has come to our attention that causes us to believe that the Indicators in the Report are not collected, compiled and reported, in all material respects, rationally and in conformance with the Company’s policies and procedures.

KPMG Azsa Sustainability Co., Ltd

KPMG AZSA Sustainability Co., Ltd.

Tokyo, Japan

November 7, 2006

GRI Content Index

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/gri.html>

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