



The fire that broke out at our Chiba Refinery in 2006, together with a series of legal violations, have become the catalysts for reforming the awareness within the Cosmo Oil Group. This special feature once again reflects back on these legal violations and reports on subsequent measures and improvements from multiple perspectives.

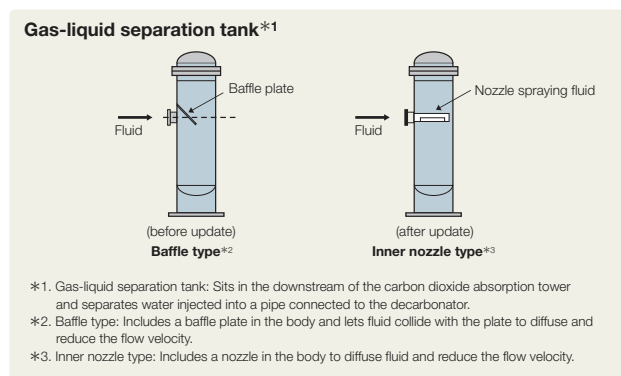
Chiba Refinery Fire Broke Out in the Early Morning of April 16, 2006

At approximately 5:37 a.m., an explosion and fire occurred near the Vacuum Gas Oil Desulfurization Unit and the Hydrogen Production Unit No.1 at our Chiba Refinery, in Ichihara City, Chiba Prefecture. The local fire department and the refinery's own fire brigade responded, and at 8:44 a.m. the fire was extinguished. Facilities at the refinery sustained damage, but fortunately there were no employee injuries and local area residents suffered no ill health or other adverse effects.

In response to the accident, we established the Chiba Refinery Accident Investigation Committee to find the causes and submitted a report including the investigation results and actions to prevent a recurrence to the Ichihara City Fire Department and Chiba Prefecture on June 20, 2006.

The cause of accident was identified as an opening formed in the shell plate of the gas-liquid separation tank in the Hydrogen Production Unit No.1 that resulted from erosion and corrosion. In 1996, a modification to the internal structure of the tank changed the flow of fluid, causing the fluid to collide with part of the shell plate that resulted in a rapid reduction in plate thickness. At that time, however, we were unable to foresee the problem and remained unaware of the thickness reduction up until after the accident eventually occurred.

Following the accident, we took various measures to prevent a recurrence that included replacing the inner nozzle-type internal structure with a baffle-type internal structure. The internal structure was returned to its original state that is highly resistant to thickness reduction, while the plate material was also replaced with a stronger one.



Subsequent Report to the Helpline Reveals Series of Legal Violations

On July 4, 2006, the Corporate Ethics Consultation Helpline received an anonymous letter from an employee of the Cosmo Oil Group. The letter stated that not only did the same type of accident that occurred in the gas-liquid separation tank happen in 1995, but that this earlier accident had never been reported. The content of the letter indicated that returning the tank's structure to its original state was likely to have been an attempt to conceal the earlier accident. An investigation conducted mainly by the

Corporate Ethics Committee revealed that no report of the 1995 accident had ever been filed with regulatory authorities and that the hole had been repaired without permission. Furthermore, the previously submitted accident investigation report included fictitious thickness measurement data. On August 4, 2006, this information, together with an apology, was submitted to the Ichihara City Fire Department and Chiba Prefecture.

An investigation team was formed at Cosmo Oil to conduct interviews and research internal documents and records. On August 31, 2006, the results of the investigation into the gas-liquid separation tank accident that occurred at the Chiba Refinery in 1995, as well as the legal violations of the High-Pressure Gas Safety Law after 1997, were submitted to the Nuclear and Industrial Safety Agency and Chiba Prefecture.

Further legal violations came to light following the submission of this report. These were subsequently included in a revised report resubmitted on October 3, 2006.

Fiscal 2006 Activities Relating to Safety and Compliance

Drawing on the lessons learned from the accident and legal violations, in fiscal 2006 we readjusted our stance on safety and compliance and commenced the following three organizational activities.

1. Rebuilding Our Safety Control System (see page 26)

We have established the Change 21 Project Action Committee and reviewed our traditional safety control measures while adding new activities as we strive to rebuild our safety control system. We are carrying out various activities and formulating preventative measures in terms of both a technological perspective (raising safety levels) and management system (decisive initiatives and implementation).

2. Strengthening Adherence to Corporate Ethics (see page 8)

We have established the Refinery Compliance Committee at each refinery as sub-organizations under the Corporate Ethics Committee. These committees emphasize "strict application of reporting," the "elimination of repair work without prior approval or notification," and "transparency of research data." Through these committees, we will continue to call for compliance, thereby reinforcing corporate ethics of every employee through to the front lines of work sites.

3. Strengthening Checking and Monitoring Functions at Production Sites

We have enacted measures to further strengthen the system under which the opinions of safety control sections are sufficiently reflected in operations and facilities management. We have separated the responsibilities of directors in charge of safety control and production and have clarified the lines of responsibility of the managing director in charge of safety control, the head office Safety and Environment Control Department, and the Safety and Environment Control Office at each refinery. Internal audits conducted at the refineries are augmented by overlapping audits that include checks to verify the actual state of the implementation of measures at the headquarters and other refineries.

Strengthening Adherence to Corporate Ethics

Compliance-Related Preventative Measures

[Main Initiatives]

As measures to prevent a recurrence of accidents and legal violations, we reported in our *Sustainability Report 2006* that we were strengthening our checking and monitoring functions and emphasizing comprehensive reporting. We have subsequently proceeded with more concrete measures, and specific initiatives are explained as follows.

Strict Application of Reporting

All possible irregular phenomena must be reported directly to the fire department with jurisdiction immediately following discovery regardless of the scale of the possible irregularity, including even minute leakages (emissions). In undertaking this process, we have carried out repeated consultations with fire departments with jurisdiction, which has led to a common awareness regarding two points, specifically, the "fire department's way of thinking on determining irregularities," and that the "level of the irregular phenomena will dictate our responses to fire departments." Our protocol is currently based on these areas of awareness.

Establishment of Procedural Flow to Eliminate Repair Work Done without Prior Approval or Notification

We carry out stringent checks at every stage, including at the start of planning, the start of work activities, and the start of operations as well as during post operations. All work must go through a process whereby the manager in charge of the Safety and Environment Control Office determines the necessity of application for approval in accordance with safety laws and the Refining Section Manager conducts a check and gives approval at the start of work and at the start of operations. Although some instructions for work have still been given based on erroneous assumptions, there has been an overall heightened awareness toward reducing unauthorized work as the implementation of this procedural flow steadily progresses.

Raising Transparency of Inspection Data

To prevent the falsification of data, we have built a framework that assures transparency. The details of inspection data (hereinafter "server data") input into a refinery's server are confirmed and approved by the Maintenance and Engineering Section Manager. Revisions to this server data are restricted. Moreover, raw inspection data is stored at a separate company and audits are conducted to compare server data with this raw inspection data.

[Convening Compliance Committee Meetings and Their Continuation into Fiscal 2007]

As part of measures to prevent a recurrence of accidents and legal violations and to ensure thorough compliance at our refineries, we have established a Refinery Compliance Committee (chairperson: refinery director) at each refinery that operates as a sub-organization of the Corporate Ethics Committee. Each respective Refinery Compliance Committee has convened once per month since October 2006. Through the committees, we have firmly positioned our initiatives for preventing recurrences and in fiscal 2007 are convening meetings quarterly. (These are convened monthly depending on the sections and refinery.)

We also hold monthly follow-up meetings, which provide opportunities for each refinery director to confirm individual reports and responses to work operations. In this manner, we are continuing to strengthen our monitoring.

[Corporate Ethics Promotion Plan for the Entire Company]

Regarding corporate ethics, we continue to carry out educational activities and implement Corporate Ethics Training Meetings. We also continue to provide training according to rank and position, including training for new employees, persons newly appointed to management level and newly appointed line chiefs. Further, at Corporate Ethics Training Meetings convened by department managers, business site managers, and Group company presidents, independent training themes, which include specific examples, are established for each section.