

Stance on Compliance Interview Report

<http://www.cosmo-oil.co.jp/eng/sustainable/07/sp/interview.html>

What are the feelings of employees at production sites and what actions are they carrying out?

We now shift our focus to the refinery directly involved in the fire and legal violations. Taking a looking back at the past year, this on-site report examines the actions taken in response to risk and the various improvement methods implemented.



Teruyuki Takishima

Assistant General Manager in charge of Production Control, Chiba Refinery

Improving communication is the key to realizing thoroughgoing compliance.

Everything began in the early morning of April 16, 2006 when I heard the thunderous explosion from my home. Hurrying to the scene, I observed that the refinery was already swarming with firefighters and police. My first task was to verify whether there were any injuries, and I confirmed that fortunately all employees were safe. Previously held simulations that visualized a spread of toxic substances, along with our daily training drills, proved their worth in the refinery accident. We also carried out effective communications while continuously providing point-by-point explanations to government authorities, residents of the local community, and the media that included giving updates on the status of damage and danger as well as making related announcements.

Looking at the series of legal violations subsequently uncovered, in retrospect, there were obviously communication problems, both within the refinery as well as externally. Refineries are subject to numerous laws, and putting top-priority on the so-called "Four Safety Laws*" in particular is regarded as fundamental to the operations of refineries. Any areas or points of uncertainty must be confirmed with relevant government authorities in every case. Over the years, however, a type of thinking evolved at the Chiba Refinery

based on the belief that autonomous decisions were permissible in instances of uncertainty. I believe this mindset eventually led to the legal violations.

In undertaking refinery maintenance, the timing of whether notification must be submitted before or after the maintenance differs depending on the law. Looking at our most recent regularly scheduled maintenance, the main personnel involved in the maintenance work gathered to decide whether a notification for each type of work needed to be submitted. In daily operations as well, we have been improving our systems and deciding on a case-by-case basis whether notification needs to be submitted.

After the legal violations came to light, compliance awareness at the Chiba Refinery has risen markedly. I believe this trend is irrefutable evidence that compliance awareness now permeates our production sites. Currently, we are thoroughly implementing broad-ranging compliance that includes solid retraining that starts with the aforementioned Four Safety Laws. This retraining also covers detailed rules for daily operations. By taking these thoroughgoing measures, we have also increased our opportunities for making relevant verifications with government authorities and created an ethos whereby we satisfy compliance requirements in any areas of uncertainty. Knowing that we can "confidently carry out proper actions" is creating a positive environment at the Chiba Refinery.

*Four Safety Laws: The generic name given to the Fire Defense Law, the High-Pressure Gas Safety Law, the Industrial Safety and Health Law, and the Law on the Prevention of Disasters in Petroleum Industrial Complexes and other Petroleum Facilities



Koji Goto

Assistant General Manager in charge of General Affairs, Chiba Refinery

The thorough implementation of will evoke greater openness both

In any emergency situation such as last year's fire, the role of the general affairs section is to confirm the well-being and safety of the refinery's employees and disclose information to residents of the local community, various government agencies, and the media. During the fire in 2006, acting on information received that sulfurous acid gas had been emitted, we immediately asked local residents to remain indoors. In doing so, we conveyed detailed information about the course of events more quickly than announcements by the media. Our response was based on our belief that promptly providing accurate information would reduce unease and anxiety of local residents.

When the legal violations were subsequently uncovered, we convened numerous explanation meetings for local residents and disclosed all pertinent information in an open manner. I believe these meetings were instrumental in enabling us to earn the understanding of local residents. On the other hand, we still nonetheless received strict administrative guidance measures from government authorities. The key issue we faced afterwards was how to restore trust in Cosmo Oil. To regain trust, the focus has been on thoroughly fulfilling obligations that are normally taken for granted, namely, "Reporting," "Communication," and "Consultation." Unfortunately, overconfidence and pride with regard to safety led us to neglect these areas in the past.

The changes that are being undertaken at the refinery were thus triggered by what we call "4.16," which is the date of the refinery fire, and



Safety Chiba

The Chiba Refinery has created a badge bearing the slogan "Chiba is Trying to Change" that is intended to foster a sense of togetherness among employees that includes unifying and reforming employee awareness. The design for the badge was decided via a vote after soliciting proposals from employees of the Chiba Refinery. The badges were distributed to employees of the refinery as well as to employees of affiliated companies beginning in December 2006.



Satoru Nakanishi

Manager of the Safety and Environment Office, Chiba Refinery

“Chiba is Trying to Change” at refineries and externally.

“8.31,” when we submitted a report on legal violations to government authorities. These incidents have helped us regain the common sense of emphasizing safety and compliance over production and profit.

The general affairs section must ensure that compliance awareness is spread throughout the refinery and is thus implementing a host of measures to attain this goal. These include firmly emphasizing the previously mentioned “Reporting,” “Communication,” and “Consultation;” ensuring that employees have a proper understanding of the Four Safety Laws; and reforming practices that are inconsistent with compliance. The key to adhering to rules is to understand the reasons why such rules exist. Also, it is important to consider ways to efficiently execute business affairs upon implementing thoroughgoing compliance. We believe that continually carrying out such activities on a daily basis will ultimately lead to excellent communications with residents of the local community.

All employees working at the Chiba Refinery wear “Chiba is Trying to Change” badges on their work uniforms. The design for this badge was chosen from among suggestions solicited at the Chiba Refinery. The slogan “Chiba is Trying to Change” expresses our stance, “We want to change everything that can be changed.” The adoption of this slogan has spurred forward-looking dialogue among refinery employees and has thus been effective in promoting more open communications within the refinery as well as with the local community.

I try to ensure real safety by making on-site confirmations, even by relying on my five senses.

I was working at the Sakaide Refinery when the accident occurred at the Chiba Refinery. At that time, however, I remember we even took measures at the Sakaide Refinery to confirm the safety of operations. Soon after the accident at the Chiba Refinery, however, the legal violations were uncovered and this escalated into an issue with repercussions that spread across the entire Cosmo Oil Group, including the Sakaide Refinery, which was also being urged for a response. I believe that each refinery probably faced a similar situation.

Since arriving at the Chiba Refinery in October 2006 as the Manager of the Safety and Environment Office, I have continually engaged in discussions with relevant government authorities. The frequency of my visits to authorities has increased while visits by government officials to the Chiba Refinery have also risen.

As a result, I sense that our mutual understanding is also deepening. The importance of compliance at the Chiba Refinery has been painfully learned by such guidance measures as the order to cease operations of certain facilities due to the legal violations. Now, we continually maintain close communications with relevant departments and verify compliance through our actual work operations. We are also re-examining matters crucial to our business operations, beginning with a review of the fundamental aspects of the Four Safety Laws.

The refinery adopted a policy of separating the lines of responsibility for production and safety control in the production sections. As part of this

move, the Safety and Environment Office has also become an independent entity within the Chiba Refinery and plays the role of checking on the production line.

The Safety and Environment Office ultimately decides on whether a regulatory request application or notification must be submitted for each type of work carried out at the refinery. Nevertheless, I personally believe it would be better if we reach a level where safety can be assured autonomously based on our rising compliance awareness and knowledge of laws. Taking this approach would almost certainly make the refinery a more dynamic place. Safety and compliance cannot be achieved by relying only on documents. I would like to make as many on-site visits as possible and confirm safety using my own five senses.

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The accident at the Chiba refinery and subsequent legal violations served as catalysts in putting the entire Cosmo Oil Group back on the right track. How has compliance awareness changed in each section during the one year since the incidents? Managers of non-manufacturing sections explain the changes in compliance awareness.



Hiroshi Kiriya

General Manager of the Demand and Supply Coordination Department

The attitude that it is “probably okay” is no longer acceptable, and we are thoroughly eliminating areas of ambiguity.

As the name implies, the Demand and Supply Coordination Department is involved in adjusting the balance of supply and demand. Accordingly, when the refinery accident occurred in 2006, we were required to forecast the amount of time needed until operations could be resumed, and we worked around the clock seven days a week to ensure that supplies were maintained. Together with these efforts, we also asked each wholesale company and sales department to make adjustments, and thanks to such measures we avoided a worst-case scenario.

However, when the subsequent series of legal violations came to light, we were unable to forecast what facts would eventually be uncovered. The successive reporting of an array of improprieties was like a direct blow to the gut. From October 2006, we had to make exceedingly tough demands on refineries due to continuous revisions to production plans. Meanwhile, I heard that the refineries were also undertaking highly detailed discussions with government agencies from various regions. In this manner, thanks to a company-wide cooperative structure, we were able to keep production line stoppages and supply disruptions to a minimum.

Refineries are obligated to report to regulatory agencies. Based on this requirement, in the wake of the accident and legal violations, we have established an ethos of never overlooking even the smallest of details. Frankly speaking, up until recently some aspects of our operations were a bit lax. However, we have eliminated

these deficiencies, and gray areas of ambiguity are no longer acceptable. Upon re-evaluating practices handed down and inherited from successive generations, we clearly realized we had become disconnected from social norms. As such, we moved to increase opportunities for studying relevant laws, and when we encounter a gray area of uncertainty, we frequently visit the Legal Department for clarification.

Using past issues as a catalyst, I am hoping we can now get back on the right track as we carry out such activities as exchanging information with the petroleum industry as a whole. I think that raising compliance awareness is also imperative to avoid being left behind amid the rapid changes currently taking place.

I believe that achieving a balance between raising profits and realizing a legal framework will be an important future task. Although this will require both time and money, I have no doubt that we can create a new Cosmo Oil Group by attaining such a balance.



Michio Shimizu

Senior Executive Officer and General Manager of the Tokyo Branch Office

I would like to approach all matters I believe this stance will yield

This has literally been a year of “terrible incidents.” When the accident at the Chiba Refinery occurred, we were able to directly allay distributors’ concerns about any adverse impacts on supplies and gain their understanding of the situation. When the legal violations were subsequently uncovered, however, we were concerned from the outset that the Cosmo Oil brand image would be tarnished. Nevertheless, Cosmo Oil issued detailed press releases and publicly disclosed all information without concealing any facts, an approach that I think ultimately worked in the Company’s favor. That said, I still personally offered my wholehearted apologies to stakeholders while listening to the deep concerns of parties with which we have longstanding relations.

At the Tokyo Branch Office, we devoted major efforts to compliance education even before the series of incidents. At weekly study sessions as well, we focused on numerous compliance-related themes. The sales front is also subject to a plethora of laws, including the Anti-Monopoly Law, the Quality Assurance Law, and the Fire Defense Law. There is no excuse for being unaware of any relevant law. Accordingly, we began our education by asking, “What is compliance?” Our education also naturally includes training in risk management.

Although the overarching goal of the Tokyo Branch Office is “improving business results,” achieving this objective is predicated on compliance. Failure to increase levels of



Kiyoshi Aoyagi

Executive Officer and General Manager of the General Affairs Department

**with “integrity.”
favorable results.**

compliance awareness creates the risk that our business results will become no more than a house of cards. I believe that possessing the sense of duty of waiting until “being ordered to do something by a superior” is no longer acceptable. Instead, each person must have their own sense of mission and continually undertake self-examination while remaining focused on business results.

The Cosmo Oil Group has adopted the corporate slogan “Filling Up Your Hearts, Too.” This slogan is also a declaration expressing our corporate stance toward society as well as the guiding light for employees’ behavior internally. To realize the intent of this slogan, we must always act with integrity in every situation. I believe that such integrity will spark each employee’s motivation to see Cosmo Oil “become a good company.” At the same time, I also believe this will provide further impetus to enhancing the Cosmo Oil Group’s brand image.

**We must be determined to avoid complacency
to change our corporate culture.**

The experience involving the accident at the Chiba Refinery in 2006 and the legal violations that were subsequently uncovered has prompted the Cosmo Oil Group to “change our corporate culture.” These incidents exposed various problems, enabling us to clearly identify areas necessitating improvement. To address these deficiencies, we inaugurated a compliance committee at each refinery under the Corporate Ethics Committee, which is positioned directly under the control of the president. We set up these committees at refineries to create a system that allows the intentions of top management to be conveyed directly to the front line of production. From October 2006 through March 2007, the compliance committees convened monthly at each refinery and provided all employees at the refineries with a thorough awareness of legal compliance and various preventive measures. It was also requested that efforts be made to nurture an awareness that compliance not only involves listening to explanations and lectures but is also something that must be put into practice during production.

Additionally, each branch office held corporate ethics workshops, where the respective branch managers took the initiative in explaining how to implement compliance during sales activities.

To ascertain the actual state of various current issues, we also implement anonymous surveys throughout the Company. Looking at the results of these surveys, I am convinced that compliance awareness is firmly becoming entrenched.

Additionally, we use opinions gathered in these surveys as well as information on problematic areas as feedback, which in turn contributes to our improvement activities. Through such concrete measures, the Corporate Ethics Promotion Office within the General Affairs Department at the Head Office is promoting corporate ethics internally.

As I mentioned, Cosmo Oil has resolved to “change our corporate culture.” In working toward this objective, we must first all share the principle of “Not giving priority to production activities over interests protected by law.” Among interests protected by the Four Safety Laws, I believe the most fundamental interest is assuring the safety of the lives and well-being of employees. Without being able to guarantee the safety of employees, we will never be able to assure the safety of residents of local communities or customers. Our corporate culture will change only when this resolve to ensure safety penetrates beginning from top management all the way down to the front line of production.

I am always aware of “never becoming complacent.” This is because it is never known where and in what form risk will emerge. As we avoid complacency, I would like to implement compliance together with everyone.