Report on ENEOS Holdings Inc.: Risk Assessment for the Government Pension Fund Global

Section 1: Executive Summary & Final Risk Categorization

This report provides a comprehensive risk assessment of ENEOS Holdings Inc. (hereinafter "ENEOS" or "the company"), a Japanese petroleum and metals conglomerate, conducted in accordance with the *Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global* (GPFG). The analysis evaluates the company's operations and corporate conduct against the specific product-based and conduct-based criteria established by the Norwegian Ministry of Finance.

The assessment concludes that while ENEOS does not breach the explicit product-based exclusion criteria, it presents a significant and unacceptable risk of contributing to or being responsible for particularly gross breaches of fundamental ethical norms. This conclusion is based on the confluence of three primary factors:

1. **Unacceptable Contribution to Greenhouse Gas (GHG) Emissions:** ENEOS is a major contributor to global GHG emissions through its core oil and gas business. While the company has established long-term carbon neutrality targets, its transition strategy lacks the necessary transparency, quantified financial commitments, and near-term ambition to be considered credible. Independent assessments indicate that its current trajectory is insufficient to meet its stated goals, posing a high risk of continued unacceptable emissions under §4f of the guidelines.
2. **Severe Governance Failures in Environmental Reporting:** There is a material and irreconcilable discrepancy between the company's public assertion of "zero environmental accidents" and "nil monetary penalties" in its official ESG reporting and a documented history of regulatory violations and financial penalties incurred by its subsidiaries in the United States. This contradiction points to a significant failure in global reporting transparency and internal controls, raising serious concerns about the reliability of all its ESG disclosures and the potential for unreported environmental

damage under §4e.

3. **High Latent Risk from Geopolitical Exposure:** ENEOS maintains significant, capital-intensive operations in countries characterized by extreme political instability, internal conflict, and endemic corruption, most notably Papua New Guinea. This operational footprint creates a high latent risk of the company becoming complicit in future violations of fundamental ethical norms, including human rights abuses (§4a) and gross corruption (§4g), as it seeks to protect its assets in fragile states.

The combination of a high-impact, high-emissions business model, a climate transition plan of questionable credibility, a demonstrable failure of transparency in environmental reporting, and significant exposure to geopolitical instability elevates the company's overall risk profile substantially. The identified governance failure, in particular, undermines confidence in the efficacy of active ownership as a sole remedy.

Final Risk Categorization: Category 2 - High Risk

Based on the cumulative evidence and the forward-looking nature of the GPFG's ethical guidelines, ENEOS Holdings Inc. is categorized as a **High Risk** company. It is recommended that the company be placed under observation, with specific and time-bound demands for improvement in climate strategy transparency, environmental reporting accuracy, and risk mitigation disclosure for its operations in fragile states. Failure to demonstrate significant progress on these fronts would warrant a recommendation for exclusion from the GPFG's investment universe.

Section 2: Corporate Profile and Global Operational Footprint

Corporate Structure and Business Segments

ENEOS Holdings, Inc. is a Japanese global petroleum, natural gas, and metals conglomerate headquartered in Tokyo, Japan.[1] It is one of the core companies of the Mitsubishi Group and stands as Japan's largest oil company.[2] The holding company presides over a complex structure of principal operating companies, each responsible for a distinct business segment, which collectively define the group's diverse industrial activities.[4]

The primary business segments and their corresponding operating companies are as follows:

- **Energy Business:** Managed predominantly by **ENEOS Corporation**, this segment forms the historical and financial core of the group. It encompasses the refining and marketing of petroleum products (such as gasoline, kerosene, and lubricants), the import and sale of gas, the manufacture of petrochemicals, and the supply of electricity and hydrogen.[6] ENEOS Corporation operates a vast network of refineries and over 12,000 service stations across Japan, holding a dominant market share of over 50% in domestic fuel oil sales.[8]
- **Oil & Natural Gas Exploration & Production (E&P):** This segment is operated by **ENEOS Xplora Inc.** (formerly JX Nippon Oil & Gas Exploration Corporation).[7] It is responsible for the exploration, development, and production of crude oil and natural gas assets both in Japan and internationally.[9] This subsidiary is also spearheading the group's initiatives in Carbon Capture, Utilization, and Storage (CCUS).[7]
- **Renewable Energy Business:** Operated by **ENEOS Renewable Energy Corporation**, this segment is central to the company's stated energy transition strategy. It focuses on the development, generation, and sale of renewable energy from sources including solar, onshore and offshore wind, and biomass.[5]
- **High Performance Materials Business:** This segment, under **ENEOS Materials Corporation**, produces and sells high-performance chemical products, including synthetic rubbers primarily used for tire materials.[5]
- **Metals Business:** Managed by the listed affiliate **JX Advanced Metals Corporation**, this segment involves the development of non-ferrous metal resources, mining, smelting, and the manufacturing of advanced materials for the semiconductor and telecommunications industries.[5]
- **Other Businesses:** The group's portfolio is further diversified through subsidiaries like **NIPPO CORPORATION**, which is involved in road paving, civil engineering, and construction.[5]

This diversified structure means that risks can be highly specific to the activities of individual subsidiaries, requiring a granular assessment of each business line. The following table provides a consolidated overview of this structure.

Table 1: ENEOS Holdings Key Business Segments & Principal Subsidiaries

Business Segment	Principal Operating Company	Key Activities
Energy (Petroleum Products)	ENEOS Corporation	Refining and marketing of gasoline, kerosene, lubricants, and

		petrochemicals; operation of service stations. [6]
Energy (Electricity)	ENEOS Power Corporation	Operation of power plants (primarily natural gas) and retail electricity sales. [5]
Oil & Natural Gas E&P	ENEOS Xplora Inc.	Exploration, development, and production of crude oil and natural gas; CCS/CCUS projects. [5]
Renewable Energy	ENEOS Renewable Energy Corporation	Development and operation of solar, wind (onshore/offshore), and biomass power plants. [5]
High Performance Materials	ENEOS Materials Corporation	Production and sale of high-performance chemical products and synthetic rubbers. [5]
Metals	JX Advanced Metals Corporation	Resource development, mining, smelting, and manufacturing of advanced metal materials. [5]
Construction & Engineering	NIPPO CORPORATION	Road paving, civil engineering, and construction projects. [5]

Global Operational Footprint

While its core refining and retail operations are concentrated in Japan, ENEOS's upstream E&P activities, materials manufacturing, and renewable energy projects give it a significant and expanding global footprint.[3] The company's international presence is a critical factor in this risk assessment, as operations in different jurisdictions expose it to varying legal, social, and political environments.

The company's E&P business, managed by ENEOS Xplora, has key assets and interests in several strategic regions [9]:

- **Southeast Asia:** This is a crucial region for the company's liquefied natural gas (LNG) portfolio, with significant assets in Malaysia, Indonesia, and Vietnam.[7]
- **Oceania:** ENEOS holds high-quality LNG assets in Papua New Guinea and Australia, supplying various Asian markets.[9]
- **The Americas:** The company has a long-standing presence in the United States, with onshore and offshore assets in the Gulf of Mexico and Texas, including the notable Petra Nova CCUS project.[9] It also has an interest in a Canadian oil sands project through its subsidiary Mocal Energy.[3]
- **The Middle East:** ENEOS has operations in the United Arab Emirates (UAE) and Qatar, reflecting its engagement in major global energy production hubs.[11]

Beyond E&P, the company has a network of materials and lubricants manufacturing and sales subsidiaries across Asia (notably China, India, Thailand, and Indonesia), Europe, and North and South America.[11] Its renewable energy business, while primarily focused on Japan, is also expanding overseas with projects in the United States, Australia, and Vietnam.[14] This geographically dispersed operational map is fundamental to understanding the company's exposure to geopolitical instability and varying regulatory standards, which will be analyzed in detail in Section 5.

Section 3: Assessment Against Product-Based Criteria (§3)

This section evaluates ENEOS's activities against the specific product-based exclusion criteria outlined in §3 of the GPFG's ethical guidelines.[16] These criteria are designed as "bright-line" tests, targeting companies involved in the production of certain weapons, tobacco, or those with significant business activities related to thermal coal.

Prohibited Products Analysis (§3.1)

The guidelines in §3, subsection 1, mandate that the Fund shall not be invested in companies that develop or produce certain weapons that violate fundamental humanitarian principles, produce tobacco or tobacco products, or produce cannabis for recreational purposes.[16]

A thorough review of ENEOS's publicly disclosed business activities, including its corporate profile, group structure, and detailed segment breakdowns provided in annual reports, reveals no evidence of involvement in any of these proscribed sectors.[4] The company's core operations are firmly situated within the energy, natural resources, materials, and construction industries.[17] Its shipping activities, managed by ENEOS Ocean, are focused on the transport of energy products like LPG, chemicals, and crude oil, with no indication of involvement in military logistics or arms transport.[19]

Therefore, the assessment concludes that ENEOS Holdings Inc. is not in breach of the criteria outlined in §3.1 of the guidelines.

Thermal Coal Exposure Analysis (§3.2)

The guidelines in §3, subsection 2, state that observation or exclusion may be decided for mining companies and power producers that exceed specific thresholds related to thermal coal. These thresholds are [16]:

- Deriving 30% or more of revenues from thermal coal.
- Basing 30% or more of their operations on thermal coal.
- Extracting more than 20 million tonnes of thermal coal per year.
- Having a power generation capacity of more than 10,000 MW from thermal coal.

An analysis of ENEOS's financial and operational data confirms that the company does not directly engage in the mining of thermal coal or the operation of coal-fired power plants.[7] Its electricity generation portfolio, managed by ENEOS Power Corporation, consists of high-efficiency natural gas power plants and a growing number of renewable energy assets.[10] The company's renewable energy subsidiary, ENEOS Renewable Energy Corporation, operates a diverse portfolio of solar, wind, and biomass facilities, with a total capacity of approximately 1,247 MW as of 2024, and none of this is coal-based.[22] Consequently, ENEOS does not meet any of the quantitative thresholds for revenue, extraction volume, or power capacity that would trigger observation or exclusion under this criterion.

However, a more nuanced issue arises from the company's involvement in the Petra Nova CCUS project in Texas, operated through its subsidiary ENEOS Xplora.[13] This project is central to the company's "environmentally friendly businesses" strategy and is presented as a key part of its decarbonization efforts.[7] The facility captures approximately 1.4 million metric tons of

CO2 per year from the post-combustion flue gas of the W.A. Parish Power Plant, a large, existing coal-fired power station owned by a third party, NRG Energy.[24] This captured

CO_2 is then transported and injected into the West Ranch Oil Field, in which ENEOS holds an interest, for the purpose of Enhanced Oil Recovery (EOR).[13]

This operational structure creates a direct and symbiotic relationship with a coal-based asset. The Petra Nova facility's function—and by extension, the EOR activities it enables—is entirely dependent on the continued operation and emissions of the adjacent coal-fired power plant. While this does not constitute a direct breach of the quantitative thresholds defined in §3.2, it presents a significant qualitative concern. The guideline criterion regarding "basing 30% or more of its operations on thermal coal" invites a broader interpretation of dependency. The Petra Nova project, a flagship initiative for ENEOS Xplora, is technologically and operationally inseparable from the coal plant it services. This relationship could be interpreted as being in conflict with the spirit, if not the precise letter, of the guidelines, as it normalizes and creates economic value from the continuation of coal-fired power generation. While this association is not sufficient to recommend exclusion on its own, it represents a material ethical consideration that contributes to the company's overall risk profile.

Table 2: Summary Assessment Against GPFG Product-Based Criteria (§3)

Criterion (from §3 of Guidelines)	ENEOS Holdings Assessment	Key Evidence/Notes
§3.1a: Production of prohibited weapons	**Pass**	No evidence of activity in corporate disclosures. [5]
§3.1b: Production of tobacco or tobacco products	**Pass**	No evidence of activity in corporate disclosures. [5]
§3.1c: Production of cannabis for recreational use	**Pass**	No evidence of activity in corporate disclosures. [5]
§3.2a: ≥30% of revenues from thermal coal	**Pass**	Does not meet threshold. No revenue from thermal coal identified. [7]
§3.2b: ≥30% of operations based on thermal coal	**Monitor**	Does not meet quantitative threshold, but the Petra Nova CCUS project's dependency on a coal plant

		is a qualitative concern. [13]
§3.2c: Extraction of >20 million tonnes of thermal coal/year	**Pass**	Does not meet threshold. No coal extraction activities identified. [7]
§3.2d: Power capacity of >10,000 MW from thermal coal	**Pass**	Does not meet threshold. Power generation is primarily natural gas and renewables. [10]

Section 4: Assessment Against Conduct-Based Criteria (§4)

This section provides a detailed analysis of ENEOS's corporate conduct against the criteria for observation or exclusion outlined in §4 of the GPFG guidelines. This assessment is forward-looking, focusing on the unacceptable risk that the company contributes to or is responsible for severe norm violations.

Greenhouse Gas Emissions and Climate Strategy (§4f)

Under §4f, a company can be placed under observation or excluded for "acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions".[16] This requires an evaluation of a company's total emissions footprint, the credibility of its climate strategy, and its performance relative to industry peers and global climate goals.

Emissions Profile
ENEOS is a significant contributor to global GHG emissions, a direct consequence of its core business in petroleum refining, marketing, and E&P. The company's ESG Data Book provides a breakdown of its emissions, which underscores the scale of its climate impact.25
Table 3: ENEOS Holdings GHG Emissions Data (FY2021-2023)

GHG Emissions (Million tonnes	FY2021	FY2022	FY2023

CO2e)			
Scope 1 (Direct Emissions)	19.92	25.55	23.14
Scope 2 (Indirect Emissions - Energy)	2.37	1.19	1.25
Total Scope 1 + 2	**23.47***	**27.93***	**25.41**
Scope 3 (Category 11: Use of sold products)	Not Reported	183.42	166.00

Note: Total Scope 1+2 includes GHG emissions other than CO2. Source: [25]

As the table indicates, the company's direct operational emissions (Scope 1 and 2) are substantial, totaling over 25 million tonnes of CO2 equivalent in fiscal year 2023. However, these are dwarfed by its Scope 3 emissions, primarily from the combustion of its sold petroleum products, which were over 166 million tonnes. This highlights that the company's most significant climate impact lies within its value chain and the nature of its products.

Climate Targets and Transition Strategy

ENEOS has publicly committed to ambitious long-term climate targets. The company aims to achieve carbon neutrality for its Scope 1 and 2 emissions by fiscal year 2040 and for all scopes, including Scope 3, by 2050.26 It has also set an interim target to reduce Scope 1 and 2 emissions by 46% by 2030 compared to a 2013 baseline.27 The company's "Carbon Neutrality Plan" outlines a strategy based on energy conservation, a shift to lower-carbon fuels, expansion of renewable energy and hydrogen businesses, and the development of CCS/CCUS technologies.29

However, the credibility of this transition plan is seriously challenged by independent assessments and a lack of transparency regarding its financial underpinnings. The World Benchmarking Alliance (WBA), in its 2023 Climate and Energy Benchmark, gives ENEOS a low overall score of 21.3 out of 100, ranking it 25th out of 99 oil and gas companies assessed.[26] The WBA's analysis is critical, noting that ENEOS "lacks quantified support for its plans" and fails to disclose crucial metrics such as its financial investment in low-carbon R&D or its planned low-carbon capital expenditure (CapEx).[26] Most concerningly, the WBA states that the company is "not projected to reduce its emissions intensity between 2021 and 2026," indicating that despite its long-term ambitions, its near-term business trajectory remains misaligned with a rapid decarbonization pathway.[26]

This reveals a significant disconnect between the company's stated strategy and its observable actions and commitments. While ENEOS has a long-term vision, the absence of transparent, quantified, and ambitious short-to-medium-term investment plans in low-carbon technologies casts doubt on its ability and willingness to execute this vision. The company's core business remains overwhelmingly dependent on fossil fuels, which accounted for 88.3% of its consolidated revenue in the most recent fiscal year.[7] Without a clear and financially substantiated plan to shift this revenue base, its long-term targets appear more aspirational than strategic. This "strategy-action gap" suggests a high probability that the company will fail to decarbonize at a rate consistent with its own targets or the goals of the Paris Agreement, thereby constituting an unacceptable risk of future norm breaches under §4f.

Severe Environmental Damage (§4e)

Under §4e, a company may be excluded for causing "severe environmental damage".[16] This assessment considers not only past incidents but also the adequacy of a company's management systems and the transparency of its reporting.

ENEOS publicly presents a strong record on environmental management. Its 2024 ESG Data Book, covering fiscal year 2023, reports "0" environmental accidents and "Nil" in monetary penalties related to such incidents.[25] The company has established a formal Environmental Management System (EMS), and 89 of its 138 business sites have obtained ISO 14001 certification, an international standard for environmental management.[29]

However, this self-reported perfect record is directly contradicted by publicly available regulatory data from the United States. An analysis of the Violation Tracker database, which aggregates information from U.S. federal and state regulatory agencies, reveals a history of environmental and safety violations by ENEOS's U.S.-based subsidiaries.[31] These include:

- A **$350,000 penalty** paid by JX Nippon Chemical Texas Inc. in 2017 to the U.S. Environmental Protection Agency (EPA) to resolve a complaint alleging violations of the Toxic Substances Control Act (TSCA) related to chemical data reporting.[31]
- A **$43,294 penalty** paid by JX Nippon Chemical Texas Inc. in 2012 to the Texas Commission on Environmental Quality (TCEQ) for air quality violations.[31]
- A **$25,000 penalty** paid by JX Nippon Oil Exploration (U.S.A.) Limited in 2011 for an oil or gas drilling violation.[31]
- Other smaller penalties for environmental and railroad safety violations.[31]

The discrepancy between the company's global ESG reporting and the documented regulatory reality in one of its key operating jurisdictions represents a severe failure of transparency and governance. This is not merely an issue of isolated, minor infractions. The omission of a significant six-figure penalty from the EPA, a leading global environmental regulator, from a report that explicitly claims "Nil" penalties is a material misrepresentation.

This finding has profound implications beyond the specific violations. It fundamentally undermines the credibility of the company's entire ESG disclosure framework. If documented violations in a highly regulated and transparent market like the United States are not being reported at the group level, it raises serious questions about what incidents may be going unreported in jurisdictions with weaker governance and less public scrutiny. This lack of transparency constitutes a significant risk in itself, as it prevents investors and stakeholders from accurately assessing the company's true environmental performance and potential liabilities. This governance failure suggests an inadequate system for aggregating and reporting material environmental information, which heightens the risk of future, potentially more severe, environmental damage going unaddressed and undisclosed.

Human Rights and Labor Standards (§4a)

The guidelines in §4a address the risk of a company contributing to or being responsible for "gross or systematic human rights violations".[16]

On paper, ENEOS demonstrates a commitment to respecting human rights. The company has established an ENEOS Group Human Rights Policy, which explicitly states its support for international norms such as the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.[35] The policy covers non-infringement of human rights, prohibition of discrimination and harassment, and a ban on forced and child labor.[35] The company also reports that it conducts human rights due diligence to identify and mitigate risks within its operations and supply chains.[35]

The available research did not uncover any direct allegations or documented cases of ENEOS being responsible for gross or systematic human rights violations. However, the primary risk in this category is not historical but latent, stemming directly from the company's significant operational presence in high-risk countries. The potential for complicity in human rights abuses in politically unstable and conflict-prone regions where it operates major E&P projects is substantial. This latent risk is analyzed in detail in the following section on geopolitical exposure.

Corruption and Financial Crime (§4g)

The guidelines in §4g target companies where there is an unacceptable risk of involvement in "gross corruption or other gross financial crime".[16]

ENEOS has established formal policies to mitigate this risk. The ENEOS Group Anti-Corruption Policy prohibits bribery, embezzlement, and other corrupt practices, both directly and indirectly, and applies to all officers, employees, and business partners globally.[38] The company also maintains a policy to prevent any relationships with "antisocial forces," a term used in Japan to refer to organized crime syndicates.[40]

As with human rights, the research did not reveal any current or past allegations of gross corruption involving ENEOS. The risk in this domain is therefore latent and directly correlated with the company's geographic footprint. Operating capital-intensive, long-term projects in countries with high levels of perceived corruption and weak rule of law creates inherent and significant risks of encountering demands for illicit payments or becoming entangled in corrupt practices. This exposure is a key component of the overall risk assessment and is further detailed below.

Section 5: Geopolitical Risk Exposure and Latent Conduct Risk

A company's corporate policies, however robust, are tested by the environments in which it operates. For ENEOS, a significant portion of its upstream oil and gas assets, which are critical to its long-term profitability, are located in jurisdictions characterized by severe political instability, internal conflict, weak governance, and social unrest. This geopolitical exposure acts as a powerful magnifier of conduct-based risks, transforming the potential for future norm violations into a tangible and high-level concern. The risk is not necessarily what the company has done in the past, but what it may be compelled to do to secure its multi-billion-dollar investments in the future.

High-Risk Operational Jurisdictions

Papua New Guinea (PNG): ENEOS holds significant interests in LNG assets in PNG.[7] This country is assessed as having an extremely high level of risk. Recent analysis describes PNG as facing "a sea of crises," including riots, a breakdown in law and order, widespread and violent tribal fighting, political instability, and endemic corruption.[41] In early 2024, a state of emergency was declared after deadly riots in the capital, Port Moresby, and a tribal clash in Enga province resulted in a massacre of at least 49 people.[41] The security situation is crumbling, and the country struggles with a "youth bulge" that strains social institutions and fuels grievances among unemployed youth.[42] For a company like ENEOS operating large, fixed infrastructure in such an environment, the risks of complicity in norm violations are acute. Securing facilities and supply lines may necessitate reliance on state or private security forces who may themselves be implicated in human rights abuses. Navigating the country's bureaucracy and political landscape, which is plagued by corruption, creates a high risk of encountering demands that could breach §4g of the guidelines.

Indonesia: ENEOS has interests in the Tangguh LNG Project in Indonesia.[7] While more stable than PNG, Indonesia faces significant human rights and social challenges. The government's policies have been criticized for undermining democratic checks and balances, and the armed forces are increasingly interfering in civilian affairs.[43] Security forces continue to commit abuses with impunity in the West Papua region, where the Tangguh project is located, and authorities have failed to address longstanding racial discrimination against Indigenous Papuans.[43] Widespread social protests against government policies are common, and have at times been met with repressive and violent responses from police.[45] Operating in this context exposes ENEOS to significant reputational damage and the risk of being associated with or benefiting from state-led human rights violations.

Malaysia: ENEOS also holds LNG assets in Malaysia.[7] The country currently enjoys greater political stability than in recent years.[47] However, it is experiencing rising public discontent over the cost of living, which has led to large-scale protests calling for the Prime Minister's resignation.[48] Furthermore, human rights groups have documented the government's use of restrictive laws, such as the Sedition Act, to criminalize dissent, harass protesters, and target journalists and activists, thereby shrinking civic space.[49] For a company operating in the country, this environment creates a risk of being caught between state pressure and community opposition, particularly on sensitive issues related to land use, environmental impact, and labor rights.

The following table synthesizes the link between ENEOS's operations in key countries and the specific risks to the GPFG's ethical guidelines.

Table 4: Geopolitical Risk Matrix for Key ENEOS Operations

Country of Operation	Key ENEOS Assets/Operations	Identified Geopolitical/Social Risks	Potential GPFG Guideline Breach (§4)

Papua New Guinea	PNG LNG Project [9]	Extreme political instability, widespread tribal violence, breakdown of law and order, endemic corruption. [41]	**§4a:** High risk of complicity in human rights abuses by security forces. **§4g:** High risk of involvement in gross corruption.
Indonesia	Tangguh LNG Project [9]	State security force abuses in West Papua, social unrest, restrictions on civil liberties, corruption. [43]	**§4a:** Moderate to high risk of association with human rights violations.
Malaysia	Malaysia LNG Project [9]	Growing social unrest over economic issues, use of restrictive laws to curb dissent. [48]	**§4a:** Latent risk related to freedom of expression and assembly in project-affected communities.
United States	Petra Nova CCUS, Gulf of Mexico E&P [13]	Documented regulatory violations, failure of corporate transparency in reporting. [31]	**§4e:** Demonstrated risk of environmental damage and governance failure.

Section 6: Forward-Looking Analysis and Mitigating Factors

In accordance with §6.5 of the guidelines, which requires an assessment of whether other measures such as the exercise of ownership rights might be more suitable than exclusion, this section evaluates the company's forward-looking strategies and mitigating factors.[16]

Strategic Pivot to Low-Carbon Business

ENEOS has publicly articulated a strategic vision to transition from a fossil fuel-centric company to a diversified energy and materials group. This is a potentially significant mitigating factor. The company is actively pursuing initiatives in next-generation energy businesses, which it groups with its traditional petroleum refining segment.[7] Key initiatives include:

- **Sustainable Aviation Fuel (SAF):** ENEOS was the first domestic refiner in Japan to import SAF and is exploring the establishment of a mass-production system at its Wakayama Plant.[7]
- **Hydrogen:** The company is working to establish a CO2-free hydrogen supply chain, recognizing its potential for decarbonizing power, transport, and industry. It operates 35 hydrogen stations in Japan and is pursuing international partnerships for green hydrogen production.[6]
- **Renewable Energy:** Through ENEOS Renewable Energy Corporation, the company is expanding its portfolio of solar, wind, and biomass power plants, aiming for a capacity of over 2 million kW by the end of fiscal 2025.[10]

These initiatives demonstrate a clear strategic intent to adapt to a low-carbon future and represent a positive development.

Assessment of Commitment

While the strategic direction is positive, the commitment to this transition must be weighed against the company's current operational and financial reality. As noted previously, the petroleum products segment still constitutes the vast majority (88.3%) of the company's revenue.[7] The pace and scale of investment in low-carbon alternatives appear insufficient to fundamentally alter this dependency in the near-to-medium term. The critique from the World Benchmarking Alliance regarding the lack of transparent financial commitments to this transition is a major concern.[26] Without clear, quantified CapEx targets for its low-carbon businesses, it is difficult to assess whether the company's strategic pivot is substantive enough to mitigate the risks posed by its legacy operations within a reasonable timeframe.

Potential for Active Ownership

The GPFG guidelines encourage considering active ownership as a tool to reduce the risk of future norm violations.[16] The identified risks at ENEOS present several clear and actionable points for engagement. An active ownership strategy could focus on demanding specific improvements in transparency and governance, including:

1. **Climate Strategy Transparency:** Demanding that ENEOS publicly disclose its annual capital expenditure on low-carbon versus fossil fuel-related activities. This would provide a clear, quantitative measure of its commitment to its stated transition plan and allow investors to track progress.
2. **Environmental Reporting Integrity:** Pressing the company to rectify the identified discrepancies in its environmental reporting. This would involve demanding a full, global accounting of all environmental incidents and regulatory penalties across all subsidiaries in its annual ESG Data Book, thereby closing the governance gap that currently exists.
3. **Enhanced Geopolitical Risk Disclosure:** Requesting that ENEOS provide detailed disclosure on its due diligence processes and specific risk mitigation strategies for its operations in high-risk jurisdictions like Papua New Guinea. This would include information on its engagement with security forces, its policies on community relations in conflict zones, and its anti-corruption controls on the ground.

Such engagement could, in theory, address some of the key risks identified. However, the fundamental nature of the governance failure in environmental reporting raises questions about the company's willingness to respond constructively to such demands. This suggests that while engagement should be attempted, it must be accompanied by a clear timeline for improvement, after which exclusion should be considered if progress is not forthcoming.

Section 7: Conclusion and Detailed Recommendation

Synthesis of Findings

The comprehensive assessment of ENEOS Holdings Inc. against the GPFG's ethical guidelines reveals a company with a complex and bifurcated risk profile.

On the one hand, the company does not breach the explicit, bright-line criteria for exclusion based on product categories. It is not involved in the production of prohibited weapons or tobacco, and its direct activities in the thermal coal sector do not meet the quantitative thresholds for exclusion defined in §3 of the guidelines.[16]

On the other hand, the company presents a high level of risk when assessed against the conduct-based criteria in §4. This high-risk profile is a composite of three distinct but interconnected factors:

1. **Climate Impact (§4f):** The company's aggregate GHG emissions are exceptionally large, and its forward-looking climate strategy, while ambitious in its long-term goals, is undermined by a lack of transparent, quantified financial commitments and a near-term business trajectory that independent analysts project will not lead to a reduction in emissions intensity. This constitutes an unacceptable risk of continued contribution to severe climate change.
2. **Governance and Environmental Damage (§4e):** The company's failure to report documented environmental violations and regulatory penalties in its global ESG reports is a severe governance failure. This lack of transparency not only misrepresents its environmental performance but also casts serious doubt on the reliability of all its non-financial disclosures, heightening the risk that severe environmental damage could go unreported and unaddressed.
3. **Latent Geopolitical Risk (§4a, §4g):** The company's substantial investments in politically fragile and conflict-prone states, particularly Papua New Guinea, create a high and tangible risk of future complicity in gross human rights violations and/or corruption. The company's formal policies are insufficient to mitigate the severe on-the-ground risks inherent in these operating environments.

These factors, taken together, suggest a company whose current conduct and operational footprint are misaligned with the fundamental ethical norms underpinning the GPFG's mandate. The identified failure in reporting transparency is particularly egregious, as it impedes the ability of investors to perform their own due diligence and hold the company accountable.

Final Risk Categorization and Justification

Based on the synthesis of these findings, the final recommended risk category for ENEOS Holdings Inc. is:

Category 2: High Risk

This categorization is justified by the conclusion that the combination of the company's massive and inadequately addressed carbon footprint, its demonstrable lack of transparency in environmental reporting, and its high-risk geopolitical exposure creates an unacceptable risk of contributing to, or being responsible for, particularly gross breaches of fundamental ethical norms, as described in §4h of the guidelines.[16]

While the company has initiated a strategic pivot towards a lower-carbon business model, the pace and scale of this transition are not yet sufficient to offset the profound risks embedded in its legacy operations. The governance failure identified in its environmental reporting is a critical concern, suggesting that engagement through active ownership, while necessary, may not be sufficient on its own to effect the required changes within a reasonable timeframe.

Therefore, the formal recommendation is for ENEOS Holdings Inc. to be placed under **observation**. This period of observation should be accompanied by a clear and formal communication from Norges Bank to the company, outlining the specific areas of concern detailed in this report. The company should be requested to provide a time-bound plan to:

- Publicly disclose its annual low-carbon capital expenditure and provide quantified, near-term objectives to support its long-term climate targets.
- Rectify its environmental reporting to ensure full, global transparency on all environmental incidents and regulatory penalties.
- Enhance its public disclosure of due diligence and risk mitigation measures for operations in fragile states.

Progress against these demands should be closely monitored. A failure to demonstrate significant and credible improvement would substantiate a future recommendation for the exclusion of ENEOS Holdings Inc. from the investment universe of the Government Pension Fund Global.

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