

As a corporate citizen and member of the global energy industry, the Cosmo Oil Group is working to help make society more sustainable.

We at the Cosmo Oil Group are building our business with the awareness that our most important mission in society is to supply energy in a stable and efficient way for use in everyday life and for the advancement of industry. Fossil fuels—the petroleum that forms our core business—have given many benefits to humanity. But it is also true that our world's mass consumption of oil has enormous impacts on the global environment. Thus, we recognize that for our group in oil industries, environmental protection is just as important a responsibility to society as providing a stable supply of oil.

The roles of corporations in reducing the overall environmental impacts of society—and in promoting sustainable development—are becoming increasingly important. In this context, the energy industry has a special challenge to help find ways to reduce the environmental impacts caused by the supply and consumption of energy. Thus, the Cosmo Oil Group has made the environment a priority management issue. To do our part, we are working to reduce the environmental impacts of the production and consumption of petroleum products. We are also putting effort into activities to protect and restore the natural environment.

Environmental protection—as a member of the oil industry

After the Industrial Revolution the world experienced a huge shift from coal to petroleum, or stated another way, from solid to liquid energy sources. As anyone can see, today the world depends heavily on petroleum products, and in Japan, for example, they provide about 50% of all energy consumed. From various perspectives—economics, safety, infrastructure, and fossil fuel reserves, for example—one could easily conclude that society is unlikely to abandon its oil dependency any time soon. Aware of this reality, the Cosmo Oil Group is making a great effort to reduce environmental impacts over the entire life cycle, from the production of crude oil to the transportation, manufacturing, marketing, and consumption of petroleum products.

To offer a few examples, in fiscal 2002, we developed a system to decrease the actual

volume of active sludge discharged from oil refineries and installed it in our Sakaide Oil Refinery. We are continuing our efforts to address the issue of climate change and were able to reduce unit energy consumption at four refineries by 9.7% compared to fiscal 1990 (an additional 0.6 point improvement over our achievement in fiscal 2001). To reduce environmental impacts incurred during use, we have succeeded in developing low-sulfur diesel. We started trial shipments in the Tokyo area of diesel fuel with a reduced sulfur content of 50 ppm in September 2002, and expanded this product to supply nationwide in April 2003. These are but a few examples, and we promise many more to come.

Partnership with customers

Environmental issues affect every person on Earth, and our planet as a whole. To give individuals the opportunity to participate in activities to protect the environment, in April 2002 we launched the Cosmo the Card Eco, a credit card that customers can use at our service stations. Cardholders make an automatic donation of 500 yen each year, and Cosmo Oil also contributes an amount of funds each year that depends on sales volume.

About 56,000 customers joined this card program during fiscal 2002, and the funds collected through the card were used for environmental projects mainly in developing countries. To ensure that the funds are used effectively, Cosmo Oil employees actually visit the project sites and get directly involved, in partnership with citizens' organizations and other groups. To raise public interest, we are telling the world about these activities through television and newspaper advertisements. Until fiscal 2001, Cosmo Oil conducted projects independently with non-profit organizations, but thanks to the many customers who joined the Cosmo the Card Eco program, starting in fiscal 2002 we were able to expand the activities and social benefits and realize many synergies between our companies, customers and the NPOs.

During fiscal 2002, the funds were used to support trainings for organic rice-farming and to purchase and donate rice-milling machines. The aim of these efforts was to support the protection

of tropical rain forests that had been damaged from shifting cultivation in Papua New Guinea and the Solomon Islands, and to help address underlying issues of food supply. To ensure that the assistance will continue to be implemented effectively, we signed a memorandum of understanding with the local government and the government of Papua New Guinea regarding these projects.

Besides these activities, we are conducting a new initiative to make use of CO₂ emissions trading. During fiscal 2002 we purchased 24,000 tons (CO₂ equivalent) of carbon sequestration rights resulting from afforestation in Australia, and based on these rights issued "CO₂ Sequestration Certificates." In December, these certificates were applied to the 11,195 tons of CO₂ emitted through combustion of the gasoline purchased by Cosmo the Card Eco cardholders, meaning in effect that we have offered them "CO₂-neutral gasoline." We also sell the certificates in units of one ton at a time to consumers. Through such approaches we are offering individual users of petroleum products ways to tackle climate change.

Integrated energy projects

While the Cosmo Oil Group works to provide a stable supply of petroleum products with low environmental impact today, it is also working to develop energy that will meet humanity's needs in the future.

In fiscal 2002 we succeeded in manufacturing liquid fuel from natural gas for the first time in Japan, using our own catalyst technology. We also started operating a hydrogen fuelling station that uses sulfur-free gasoline to produce hydrogen for fuel cells. And we launched an independent power producer (IPP) electricity generation project in July 2003, a new type of venture for the Cosmo Oil Group. The electricity generated is being sold wholesale to Chubu Electric Power Co., LTD.

Committed to environmental excellence

Cosmo Oil is aiming to be an environmental leader, and we are still on the path to that goal. In April 2002 we made progress along the path to earn the reputation of "Cosmo Oil—the environmental choice," when we formulated what



we call *Blue Earth 21* (our Medium-Term Environmental Plan) and strengthened our internal corporate structure to support the plan, with the Global Environment Committee as the implementation body and the Executive Board as the decision-making body. A year later, in April 2003, we formulated the Corporate Ethics Regulations (including corporate Behavior Guidelines) for the Cosmo Oil Group as a whole. These codes encapsulate our basic policy on the environment. We have also established a Corporate Ethics Promotion Office.

To be truly appreciated and trusted by society and to have people continue valuing our existence, we at the Cosmo Oil Group must tell the world about our activities and listen sincerely to the opinions we receive. We started publishing the Environmental Report in 2001 as a part of our communications activities, in an effort to provide information clearly and systematically. We also undergo independent review to help ensure the accuracy and transparency of the information in our reports. We at the Cosmo Oil Group want to steadily improve the effectiveness of our environmental and social initiatives. To that end, we warmly welcome your comments and suggestions.

Keiichiro Okabe
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