

government seeks ways to increase efficiency in the economy.

In the context of climate change, the Kyoto Mechanisms*1 (including emissions trading*2, the CDM*3, and JI*4) will probably become essential tools for Japan and other countries to achieve their targets under the Kyoto Protocol.

The Kyoto Mechanisms are flexible mechanisms under the Kyoto protocol that facilitate the efforts of industrialized countries to fulfill their national emissions reduction commitments.

Oil and the environment—our perspective

The Cosmo Oil Group is aware of its role and social responsibility in the context of energy and environmental issues. As stated above, even with the government's scenario of reducing petroleum's share of Japan's primary energy supply from 52% in 1999 to 45% in 2010, petroleum will continue being a major energy source for society. We are keenly aware of the need to provide a stable and efficient supply of petroleum through our business of producing, transporting, refining, and marketing petroleum products. And we know that we must balance these needs with our responsibility to reduce the environmental impacts arising from business activities and to make cleaner petroleum products.

For example, we have set concrete targets and are working to improve energy efficiency of

production by 10% at our oil refineries in 2010 compared to 1990. And as we work to make our petroleum products cleaner, we are not content just to meet current regulations, but are working to keep well ahead of future regulations.

In addition, we are actively working on research, development and commercialization of alternative energies.*5 As an integrated energy company, we are also expanding into the businesses of distributed power generation, independent power production and liquid natural gas, and developing technologies for fuel cell systems, hydrogen fueling stations, and gas-to-liquid fuels. Not only that, we are also working to expand into new environmental businesses that provide products and services based on our own new environmental technologies.

We don't stop with the business areas we are directly involved in, but are also moving ahead with environmental initiatives in a broader sense. We believe it is our responsibility as an energy company to tackle climate change, through initiatives such as emissions trading and the conservation of tropical rainforests. And through efforts to raise environmental awareness, we are working together with customers and society to help protect the global environment.

Through such activities, the Cosmo Oil Group aims to contribute to the creation of sustainable society, and to be seen as "Cosmo Oil—the environmental choice" for customers, shareholders and investors.

***1. Kyoto Mechanisms**

The Kyoto Mechanisms are flexible mechanisms under the Kyoto protocol that facilitate the efforts of industrialized countries to fulfill their national emissions reduction commitments. They include emissions trading, the CDM, and JI.

***2. Emissions trading**

Emissions trading allows industrialized countries that have made commitments for greenhouse gas emissions reduction targets to trade part of their emissions allowance (assigned amounts).

***3. CDM**

(Clean Development Mechanism)

The CDM allows industrialized countries that have committed to greenhouse gas emissions reduction targets to invest in projects in developing countries in order to reduce emissions (or enhance sinks), and to obtain credits for those reductions (or sinks). This mechanism offers merits for both sides—the industrialized country can apply the credits to meet its own reduction targets, while the developing country benefits from technology transfer and investment.

***4. JI (Joint Implementation)**

JI allows industrialized countries to transfer (or acquire from) other industrialized countries the emissions reduction units resulting from projects aimed at reducing emissions of (or increasing absorption of) greenhouse gases.

*5 See pages 19–20.

