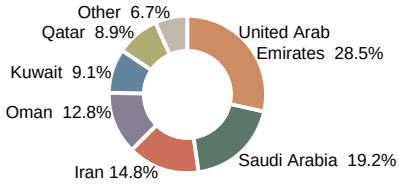
We are working to build positive relations with oil-producing nations and secure a safe and stable oil supply.

Japan depends on imports from the Middle East and other areas for nearly all its oil. Cosmo Oil has always sought a stable energy supply by dividing its purchases among several countries (see graph). Starting in the 1960s, we pursued crude oil developments in the Emirate of Abu Dhabi, part of the United Arab Emirates, and established the Abu Dhabi Oil Co. in 1968.

Sources of Cosmo Oil's crude oil imports (FY2002)



Activities in Abu Dhabi

The Cosmo Oil Group has been promoting cordial relations with oil producing nations, particularly with the Emirate of Abu Dhabi, since the 1960s. The chairman of Cosmo Oil currently serves as vice-president of the United Arab Emirates-Japan Society. Besides taking part in international friendship activities and cultural exchanges, the company also actively provides technical personnel and services.

In fiscal 2002, Cosmo Oil participated in an exhibition with an environmental theme, "Japan Today in Abu Dhabi," sponsored by the Japan External Trade Organization (JETRO). We presented the whole series of environmental protection measures we are taking, from the development of crude oil resources right through to the act of serving gasoline at our service stations in Japan, and exhibited the environmental protection technologies and products provided by the Cosmo Oil Group. The exhibition opened on March 31, 2003 with a ceremony, attended by Sheikh Fahim bin Sultan Al Qasimi, Minister of Economy and Commerce of the UAE, who viewed our exhibit with great interest.

Sheikh Fahim bin Sultan Al Qasimi, Minister of Economy and Commerce at the "Japan Today in Abu Dhabi" Exposition

Abu Dhabi Oil Co.

Abu Dhabi Oil Co. employs about 320 persons, including 140 regular employees hailing from 18 different countries (50 from Japan), and full time employees under contract. To ensure safe operations, the company has set up a contact system for emergencies and enhanced its provision of oil booms and other safety equipment. During 2002, it succeeded in establishing a Health, Safety & Environment (HSE) Management System as well. The company also plays a central role in the local Japanese community in Abu Dhabi.

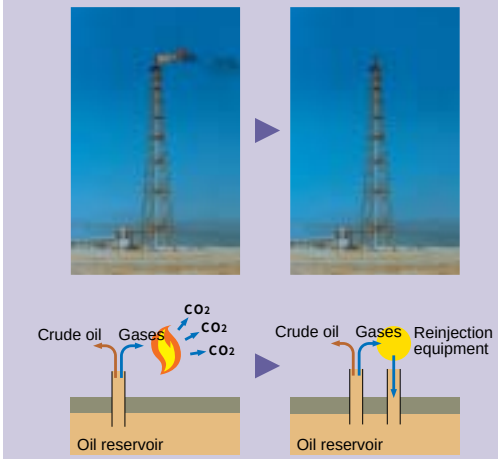
Office scene at Abu Dhabi Oil Co.

●Zero-Flare Project

Most oil fields around the world burn off gases that are emitted when crude oil is extracted, resulting in the familiar orange flame seen burning above oil wells, called the flare*1. This practice releases pollutants such as sulfur oxides into the atmosphere as well as CO_2, and a host of other substances that have environmental impacts.

At the Mubarraz, AR and GA oil fields*2 operated by Abu Dhabi Oil and its affiliates, all of the gases that were in the past burned off in the flare are today re-injected into the underground oil

The Zero Flare Project



***1. Flare gases**
Two kinds of gases are emitted when crude oil is extracted, called sweet gas and sour gas. Gas that contains a high proportion of acidic gases such as CO_2 and hydrogen sulfide are known as sour gas.

***2. AR and GA Oil Fields**
AR: Umm Al Ambar Oil Field
GA: Neewat Al Ghalan Oil Field
Abu Dhabi Oil operates the Mubarraz, AR and GA oil fields. Crude oil from these three fields is mixed together and shipped as the "Mubarraz Blend."

reservoir by a large compressor. This "Zero Flare" system, which emits no sulfur oxides or CO_2, was in operation at all three of these oil fields as of May 2001. The completion of this project helps to prevent air pollution in the Emirate of Abu Dhabi, and at the same time eliminates 200,000 tons of greenhouse gas emissions (CO_2 equivalent) annually.

●Mangrove afforestation

Abu Dhabi Oil is also working to protect the local environment. The company has planted mangrove trees, and by treating domestic wastewater with purification equipment and using the treated water for mangrove trees planted on Mubarraz Island, it is contributing to a cleaner and more natural local environment.

Mangrove forest planted by Abu Dhabi Oil

Crude oil transport

Crude oil is shipped in tankers that pass through the Strait of Malacca on their way to Japan. In a single trip of about 20 days, a VLCC (Very Large Crude Carrier) tanker in the 200,000 ton class carries enough oil to supply all of Japan for only one-third of a day.

●Safety in shipping

Safety is always the top priority in our shipping operations. Our VLCC tankers are manned by carefully selected, thoroughly experienced crews, and fitted with state-of-the-art technology and equipment, such as collision-avoidance systems, to ensure their safe passage through dangerous waters and severe weather.

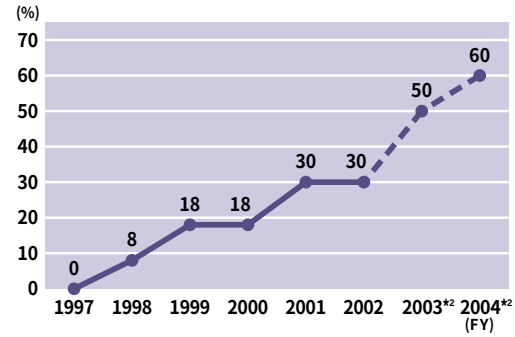
In order to avoid the unlikely chance of a potential oil spill, we have been changing over to double-hulled tankers[*1] starting in 1998. As of the end of March 2003, 3 of our 10 time-chartered tankers have been replaced with double-hulled tankers, and we plan to replace 6 more in fiscal 2004. We carefully consider other ways to protect the ocean environment, for example by ensuring that pollution-preventing oil booms are used during tanker loading and unloading.

Double-hulled tankers reduce the risk of oil spills

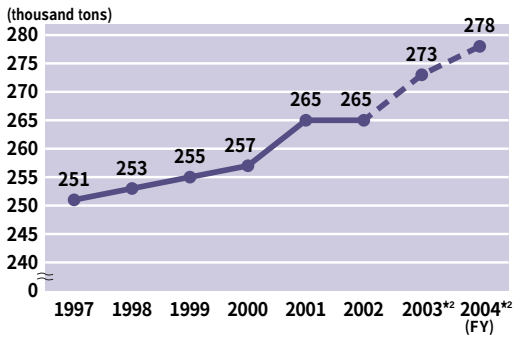
●Efficiency in transport

In order to increase the efficiency of our transport operations, we are pursuing economies of scale by switching from 200,000 ton class tankers to 300,000 ton class tankers, and by combining shipments with the Nippon Oil Corporation, with which Cosmo Oil set up the Nippon Global Tanker Co.

Double-hulled tankers in our time-chartered fleet



Average dead-weight of our time-chartered fleet



Oil storage

To secure a stable supply of oil during emergencies, oil importers and refining companies are required by law to store a 70-day supply of petroleum products, and as of the end of March 2003, they collectively held a 78-day supply. In addition, the Japan National Oil Corporation (JNOC) maintains 50 million kiloliters in storage, equal to a 91-day supply. This, combined with the supply stored by private companies, means that Japan has a 169-day supply.

***1. Double-hulled tankers**
These ships are built with two hulls in order to prevent oil from spilling out in case of an accident.

***2.** Figures for fiscal 2003 and 2004 are estimates.