WHAT IS IT FOR YOU?

COSMO OIL

ANNUAL REPORT 2003 YEAR ENDED MARCH 31, 2003

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains various forward-looking statements about Cosmo Oil. These statements are projections derived from the assumptions and beliefs of Cosmo Oil based on currently available information, and do not constitute actual performance. These projections are subject to an unlimited range of risks and uncertainties related to intense competition in our industry, market demand, and various systems. Accordingly, we caution readers not to rely excessively on these forward-looking statements. Actual performance and results may differ greatly from the Company's projections.


M A K E

I T C L E A R

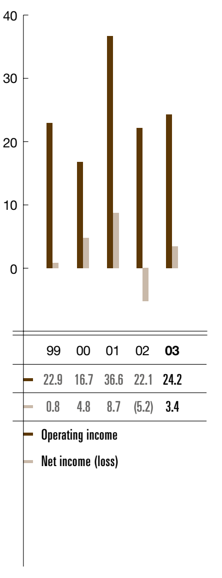
BUSINESS ENVIRONMENT AND REVIEW

The petroleum industry was hit hard by the Iraq war. Crude oil prices were volatile, moving in the US$24-30 per barrel range during fiscal 2003, ended March 31, 2003. In foreign exchange markets, another cause of earnings fluctuations, the yen began the fiscal year trading around ¥133 to the dollar, and then strengthened to about ¥120 to the dollar by the fiscal year-end owing to heightened concerns for the U.S. economy and tensions during the Iraq war.

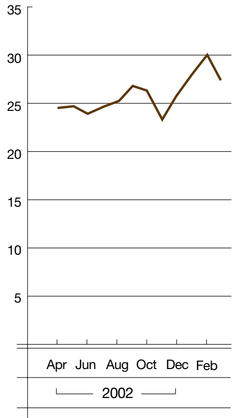
Amid these unstable conditions, Cosmo Oil marked the close of the final year of its two-year management plan Value Creation 21.

During the final year of the plan, we worked to slash interest-bearing debt to improve asset efficiency, reduce inventories through the implementation of supply chain management (SCM), and to shore up the balance sheet. Cosmo Oil concentrated efforts on boosting profitability through measures to reduce costs at headquarters, branch offices and refineries, maintaining profit margins in sales divisions, and on increasing sales opportunities for car-care products and automobile fuel by expanding its Auto B-cle store network.

OPERATING INCOME AND NET INCOME (LOSS)
(billions of yen)



CRUDE OIL PRICES
MONTHLY AVERAGE
(US$/b)



As a result of these activities, to accomplish the goals in Value Creation 21, Cosmo Oil achieved an improvement of ¥43.0 billion in earnings on a parent company basis across refining, sales, distribution and management operations. Non-consolidated net sales rose 7.5% to ¥1,680.9 billion compared with the previous fiscal year. Operating income totaled ¥12.2 billion, and net income was ¥2.8 billion, turning around from a net loss in the previous fiscal year. Based on these results, management has decided to maintain cash dividends of ¥6 per share. Although some shareholders are likely to remain unsatisfied with the overall performance of the Cosmo Oil Group, we believe we began to see a true earnings recovery during the fiscal year under review.

OUR MISSION

Our mission is to guarantee a stable supply of energy that is irreplaceable to the lives of people. At the same time, we are committed to the development of new energies for the future and the supply of diverse types of energy. The main type of energy we supply today is petroleum products. We strive to maintain stable supplies through involvement in all aspects of the business, from upstream development of oil fields to downstream sales of petroleum products such as gasoline. We take a portion of the profits garnered from these business activities and invest in the development of new energies and the diversification of energy sources. Our ultimate task is to help solve such world problems as energy security and environmental preservation.

As a primary distributor of oil, we are exposed to fluctuations in crude oil prices and foreign exchange markets, but we must build an earnings structure that can withstand such changes in the operating environment. To do so, we have made concerted efforts to increase business efficiency and strengthen management. Our achievement of approximately ¥195.0 billion in cost savings through efficiency improvements over the seven years since deregulation in 1996 is solid evidence of our success. However, our streamlining measures have begun to reach their limitations, and we must now consider new types of business restructuring.

BUSINESS MODEL

We are already moving forward to successfully achieve our mission. We are fully aware that a steady flow of cash must be generated to achieve our objectives, and so our business model is based on the management strategy of emphasizing cash flow.

Our chief business is the sale of oil products in Japan. When sales volume of oil products rises, underlying funds for energy development increase, and we are able to return profits to stakeholders, including shareholders that provide operating capital in various forms.

For this reason, sales are the most important function of Cosmo Oil. While subject to crude oil prices and foreign exchange markets, we are responding through the development of various types of service stations to steadily increase profits despite severe competition. We provide convenience to customers with our unique credit card, "Cosmo The Card," which also enhances customer loyalty to our service stations. We are also working to reduce costs in the sales, distribution and refining stages in order to ensure reasonable profit margins. We believe that oil exploration and development on our own is essential to ensuring profit margins, as it reduces the impact of external market price fluctuations.

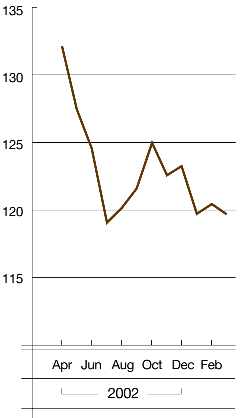
All of the medium-term management plans that Cosmo Oil has formulated and implemented over the years have been based on the concepts of this business model. March 2003 was the final month of the Value Creation 21 medium-term management plan. The Company initiated its Consolidated Medium-Term Management Plan in April 2003.

REVIEW OF VALUE CREATION 21 PLAN

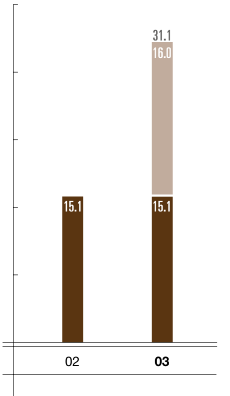
Before delving into the Consolidated Medium-Term Management Plan, I would like to briefly cover the results of Value Creation 21, our most recent two-year medium-term management plan.

One major highlight was cost reductions totaling ¥11.2 billion, which were achieved through various management initiatives, and the fabrication of a persistently low cost structure that has allowed for improvements in price competitiveness. This has also increased stability in cash flows, as the same level of sales as before now produces larger profits. Management views stable cash flows as a key priority, enabling investment in new businesses over the long term.

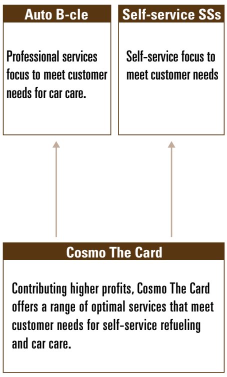
CURRENCY EXCHANGE RATES
OPERATING DAY AVERAGE
(Yen/$)



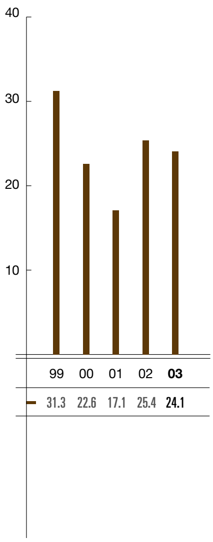
IMPROVEMENTS TO OPERATING INCOME THROUGH VALUE CREATION 21
(billions of yen)



ESTABLISH A BUSINESS MODEL BASED ON COSMO THE CARD



CAPITAL EXPENDITURES
(billions of yen)



More importantly, however, Cosmo Oil put the finishing touches on a business structure designed to magnify earnings opportunities by taking advantage of synergies among the network of self-service stations, the new business model of Auto B-cle car-care store networks and “Cosmo The Card” credit card. Described in detail later in this report, our new management plan focuses on the development of self-service stations, in response to customer demand, and Auto B-cle car-care stores, where we aim to improve revenues from car-care products and services. These two pillars are supported by “Cosmo The Card,” the infrastructure that serves to entice repeat customers. We believe that this business structure will create a self-sustaining spiral of earnings growth, and it is clearly central to the Cosmo Oil Group’s sales strategy in the future.

MANAGEMENT ISSUES AND THE CONSOLIDATED MEDIUM-TERM MANAGEMENT PLAN

During fiscal 2003, operating conditions in the Japanese oil industry presented an array of challenging issues for management at Cosmo Oil. Flat growth in demand for oil and changes in the demand structure were triggered by a weak domestic economy and structural changes in the industry. Profit margins were squeezed principally due to intensified competition within the market. And environmental concerns have prompted stricter regulations on fuel product quality.

Through initiatives in the Consolidated Medium-Term Management Plan, the Cosmo Oil Group is determined to proactively tackle the issues of changes in the demand structure, excess capacity, tighter environmental regulations, reforms in distribution, and liberalization of the energy sector. We cover the Consolidated Medium-Term Management Plan in detail later in this report, but will address here issues that shareholders and investors have questioned the most insistently, namely excess capacity, environmental regulations and plans to cut interest-bearing debt.

With regard to the issue of excess capacity, given the current state of the Japanese economy, the domestic oil industry is faced with the prospect of oil demand tapering off in the future. However, as demonstrated by special demand for heavy fuel oil for thermal power stations, which was caused by the government halting nuclear power generation in winter 2002, we believe a cautious approach is warranted with regard to refining capacity when considering the Japanese government's energy policy and the optimal mix of fuels for power generation.

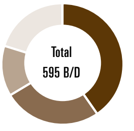
Cosmo Oil's four refineries are conveniently located near major areas of consumption. Two of our main strengths are the high cost competitiveness of our refineries and arrangements which result in minimal distribution costs. In the current management plan, however, of these four refineries Cosmo Oil has decided to reduce the topper capacity of two, namely the Sakaide Refinery in western Japan and the Yokkaichi Refinery in central Japan, by 30 thousand barrels per day and 20 thousand barrels per day, respectively. Cosmo Oil plans to implement this decision after spring 2004. Moreover, Cosmo Oil is examining alternative uses for its assets, such as converting a portion of the Sakaide Refinery to an LNG base with Shikoku Electric Power Co., Inc., one of the leading power producers in Japan.

The Company is planning to invest sufficiently to meet environmental regulations, especially those concerning the sulfur content of automobile fuel. Cosmo Oil plans capital investment of approximately ¥111.0 billion over the next three years, of which ¥13.9 billion is to be allocated to meeting environmental regulations. Cosmo Oil catalyst technology has always been rather advanced, and the Company's facilities are already compliant with high environmental standards. Cosmo Oil estimates that the investment required to meet environmental regulations for its refineries is ¥13.9 billion, considerably lower than competitors, for a cost saving of about ¥10.0 billion. The Company is earmarking ¥58.6 billion of total capital investment for strategic investments, and ¥52.4 billion for business operations, including investment for the maintenance and upgrading of facilities. The Company expects net income of ¥69.8 billion and depreciation of ¥79.3 billion for a total of ¥149.1 billion over the next three years. We believe that our capital investment plan does not exceed cash flows enough to cause any interference with normal business operations. Cosmo Oil aims to further increase the competitiveness of supply operations.

The Company's plan to reduce interest-bearing debt is a high management priority. Cosmo Oil is targeting an interest-bearing debt balance of ¥520 billion by the end of March 2006. We plan to repay interest-bearing debt mainly with

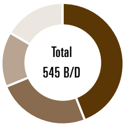
TRENDS IN PROCESSING CAPABILITIES BY REFINERY
(thousand barrels/day)

until spring 2004



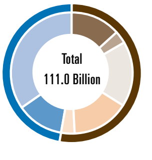
Chiba Refinery	240
Yokkaichi Refinery	155
Sakai Refinery	80
Sakaide Refinery	120

spring 2004 onward (forecast)



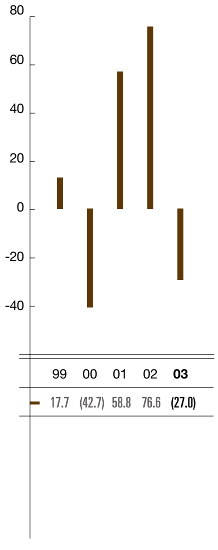
Chiba Refinery	240
Yokkaichi Refinery	135
Sakai Refinery	80
Sakaide Refinery	90

CAPITAL INVESTMENT PLAN
3-YEAR CUMULATIVE GOALS
(billions of yen)



Strategic investment	58.6
Self-service SS investment	14.7
Competitive supply enhancement	3.7
Oil exploration and production	19.3
Electric power generation and gas	16.9
Other	4.0
Environmental management, maintenance and upgrading investment	52.4
Environmental management investment	13.9
Maintenance and upgrading investment	38.5
Total	111.0

CASH FLOWS FROM OPERATING ACTIVITIES
(billions of yen)



stable cash flow provided by operating activities, and we are considering the sale of land formerly used for oil refining and as depots, as these are ambitious targets. In addition, we aim to improve profitability by enhancing cash flow from operating activities, and to build a sound financial position conducive to better terms on capital procurement resulting from improved credit ratings.

A more detailed analysis of supply operations as well as oil exploration and development follows in the business review section.

RESTRUCTURING IN JAPAN'S OIL REFINING INDUSTRY

When examining the next few years, the oil industry in Japan appears unlikely to see a wave of restructuring through corporate alliances and mergers. However, due to disparities in refining facilities, we believe that more and more oil companies will seek out new types of alliances to adapt to structural changes in demand and to respond to environmental issues, and also engage in consignment and bartering activities in the refining business.

Against this backdrop, Cosmo Oil is emphasizing the improvement of cost competitiveness in its consignment-based alliance with Nippon Oil Corporation.

Fiscal 2002 results achieved approximately ¥11.0 billion in cost savings compared with the initial rationalization target of ¥15.0 billion. Cosmo Oil's take of this amount was about ¥4.0 billion. We aim to further enhance our existing tie-ups in an effort to achieve all goals that remain outstanding.

AS A MEMBER OF SOCIETY

Cosmo Oil has set the objective of creating a Cosmo network that is both extremely competitive and also preferred by customers. Our corporate principles of aiming to coexist with society, becoming an environmentally advanced company, and of promoting activities for the benefit of society resides within this objective. While engaging in business activities based on these basic corporate principles, Cosmo Oil makes every effort to improve profitability, which is the most fundamental goal. The Company formulated the Corporate Ethics Regulations as a manual for ethical behavior to achieve these business principles. In addition, Cosmo Oil established the Corporate Ethics Committee, with the president, the executive vice president, directors of the Corporate Planning Department 1, Personnel Department and General Affairs

Department as members under the supervision of the Board of Directors.

For those shareholders and investors who view Cosmo Oil as an appealing company for its efforts along these business principles, we thank you for your enduring support and understanding. We are making every effort to provide stable dividends over the long term to return value to our shareholders.

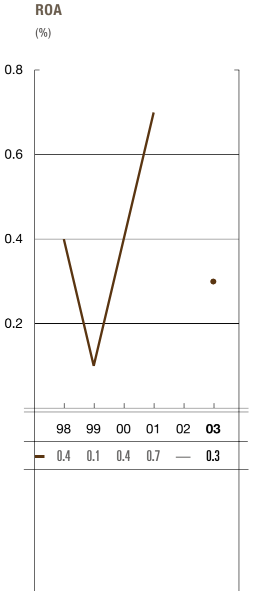
WHAT IS COSMO OIL FOR YOU?

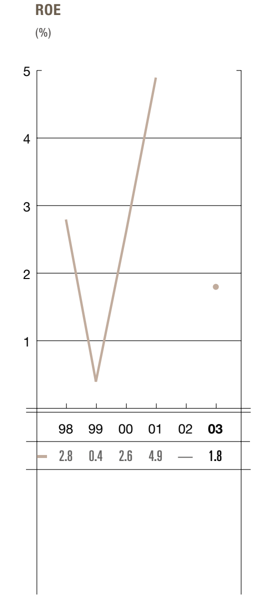
We make every effort to clearly communicate Cosmo Oil's current position and future strategies. Although I believe it is impossible to cover every aspect of our operations in this report, I hope that this annual report serves to deepen understanding of our business activities by focusing on the profit potential and soundness of our operating companies.

As a company that develops and supplies energy while striving to coexist in harmony with society and the environment, Cosmo Oil aims to positively affect the lives of its stakeholders in some way. For Japan, we act as a private-sector ambassador to oil-producing nations. For car owners, we are the station that sells gasoline and diesel oil. For investors, we are an investment that produces returns. For developing nations, we are a provider of technologies that help protect the environment. We believe our mission is to provide value to all of our stakeholders. Taking our stance into consideration, I hope this annual report serves to deepen your understanding of Cosmo Oil.

June 27, 2003

Keiichiro Okabe
Chairman and Chief Executive Officer





MAKE IT

VISION AND TARGETS OF THE CONSOLIDATED MEDIUM-TERM MANAGEMENT PLAN

The Consolidated Medium-Term Management Plan aims to maximize customer satisfaction through measures to create value and rationalize operations while making the best use of the Group's management resources to respond to challenging conditions in the operating environment, including changes in the demand structure, chronic overcapacity, tough environmental regulations, reforms in distribution systems, and liberalization in the energy field. Through these measures, we aim to improve enterprise value and increase the earnings potential of the entire Group.

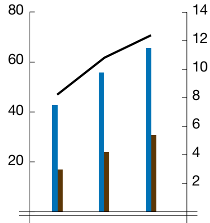
There are five main action points in the plan, which are itemized as follows:

1. We will focus efforts on strengthening profitability in oil refining and marketing operations, our chief business.
2. We aim to bolster oil exploration and production operations in the Middle East and Australia.
3. We seek to form a foundation to become a comprehensive energy company also involved in electrical power and LNG (storage and marketing) operations.
4. We will work to enhance the earnings potential of affiliated companies.
5. We will become an environmentally progressive company.

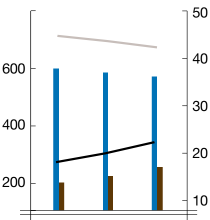
The financial targets we believe are attainable in the plan are for operating income of ¥66.0 billion, net income of ¥31.0 billion and ROE of 12.4% by the fiscal year ending March 31, 2006. On the balance sheet, we are targeting interest-bearing debt of ¥522.0 billion, shareholders' equity of ¥250.0 billion, an interest-bearing debt ratio of 42.4%, and a total shareholders' equity ratio of 20.3%.

CONSOLIDATED MEDIUM-TERM MANAGEMENT PLAN FINANCIAL GOALS AND INDICES

(billions of yen,%)



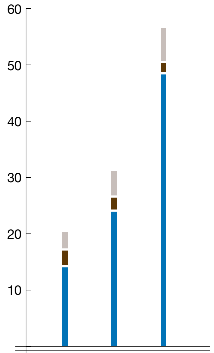
	04	05	06
Operating income	43.0	56.0	66.0
Net income	17.0	24.0	31.0
ROE	8.2	10.8	12.4



	04	05	06
Interest-bearing debt	547	534	522
Shareholders' equity	203	223	250
Interest-bearing debt ratio	44.8	43.7	42.4
Shareholders' equity ratio	16.6	18.2	20.3

H A P P E N

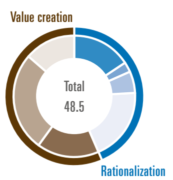
EARNINGS IMPROVEMENT SCENARIO IN THE MEDIUM-TERM MANAGEMENT PLAN
(billions of yen)



	04	05	06
	14.2	24.1	48.5
	3.0	2.5	2.0
	3.0	4.5	6.0

Oil refining and marketing
Oil development
Affiliated companies

EARNINGS IMPROVEMENT TARGETS IN OIL REFINING AND MARKETING THROUGH RATIONALIZATION AND VALUE CREATION
(billions of yen)



Value creation total	27.4
Supply	8.0
Sales	12.8
New businesses, etc.	6.6
Rationalization total	21.2
Supply	7.6
Sales	1.3
Logistics	2.8
Administration, etc.	9.4
Total	48.5

ACHIEVEMENT OF PROFIT TARGETS

Cosmo Oil must achieve its operating income target of ¥66.0 billion. To do so, we believe it is necessary to improve earnings by ¥56.5 billion over current conditions. We expect to improve earnings by ¥48.5 billion in the oil refining and marketing business, ¥2.0 billion in the oil exploration and production business, and ¥6.0 billion at affiliated companies.

In the oil refining and marketing business, the business with the highest weighting, the Company plans to improve earnings by ¥27.4 billion through value creation focusing on marketing and by ¥21.2 billion through rationalization in mainly supply and administration functions. The following is a description of concrete measures to create value and rationalize operations. The graphs give a visual representation of our profit targets.

EFFORTS TO CREATE VALUE

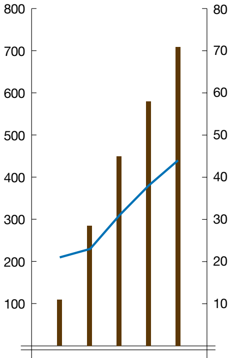
We are advancing measures in the areas of marketing, supply and new businesses to create value. The main thrust of our efforts is marketing, where we aim to achieve the two objectives of reforming the distribution system and improving customer satisfaction.

The Japanese petroleum industry consists of two types of entities: refining and wholesaling companies like Cosmo Oil, and distributors like the Company’s 369 independently managed affiliated service station operators. Through margins, which is the main revenue stream for both entities, is calculated by subtracting oil prices from the final selling price. Cosmo’s marketing objectives in this industry are characterized below.

Reforming the distribution system

We aim to reinforce the service station retail business and increase the share of direct sales volume and sales by marketing subsidiaries in the Group’s total automobile fuel sales volume to service stations from the approximate 23% in the fiscal year ended March 31, 2003 to about 44% in the fiscal year ending March 31, 2006. We also aim to increase the share of direct sales and sales of marketing subsidiaries in total industrial fuel oil sales volume from about 13% in the fiscal year ended March 31, 2003 to 18% in the fiscal year ending March 31, 2006. Our target of 44% in service station automobile fuel sales volume is achievable, in our opinion, as we plan to invest ¥14.7 billion over the next three years to open 265 new self-service stations that are directly operated or through marketing subsidiaries, which boast nearly quadruple the sales volume of our full-service stations, and through supervisors giving guidance to service stations. Although there are concerns that this move will trigger extreme competition, we believe that this move will avoid the pitfall of making a late entry into the self-service station market, which we expect to expand in the future. We also believe that this move is the answer to the problem of too many service stations as we focus on opening more of our own self-service stations to weed out the competition.

SALES TARGETS
GOALS FOR THE NUMBER OF SELF-SERVICE SSS
(SSs, % of sales volume by directly run and subsidiary-run SSs)

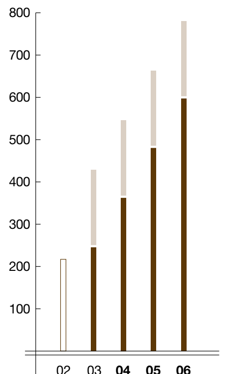


	02	03	04	05	06
Number of self-service SSs	109	285	450	580	710
Share of sales volume by directly run and subsidiary-run SSs	21	23	31	38	44

Efforts to improve customer satisfaction

We plan to expand the number of our self-service stations from 285 in the fiscal year ended March 31, 2003 to 710 in the fiscal year ending March 31, 2006 in response to increasing demand for self-service refueling facilities. Cosmo Oil is also developing Self-Service & Auto B-cle, which is a self-service refueling and car-care facility, and Self-Service & Car Wash, a self-service refueling and car wash facility, in line with regional and customer needs. The car-care market for car washing, tire changes as well as maintenance and inspection is valued at approximately ¥8 trillion. Car shops and car dealers comprise a majority of this market, and oil companies only account for less than 10%. Consequently, we have placed a priority on making further inroads into the car-care market.

SALES TARGETS
NUMBER OF AUTO B-CLE SERVICE STATIONS



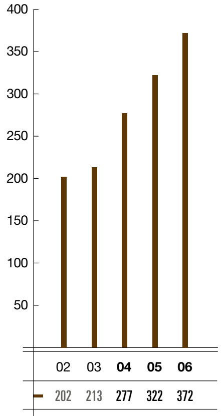
	02	03	04	05	06
Total	217	428	545	663	780

Affiliated dealer-run Auto B-cle
Directly & subsidiary-run Auto B-cle

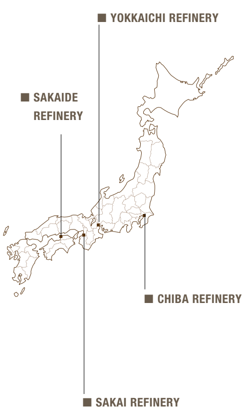
Cosmo's service station business model

Facilities and car-care services are divided mainly into large-scale service stations as key stations equipped with facilities for a variety of car-care services, and small and medium-scale service stations as satellite stations that conduct car inspection, maintenance and repairs in our Auto B-cle network. A single service station is able to cover a larger area as a result. Cosmo Oil plans to expand from 428 networked service stations as of March 31, 2003, to 780 service stations by March 31, 2006. This figure includes 600 service stations that are either directly operated or operated through marketing subsidiaries, creating a car-care revenue stream back to the Cosmo Group. By linking our service stations into the Auto B-cle network, the Company aims to increase

SALES TARGETS
NUMBER OF CARDS IN FORCE
(10,000 cards)



LOCATION OF REFINERIES



gross profit by about 1.5 times through non-fuel car-care products and drastically improve the profitability of its service stations. Cosmo Oil provides optimal services matched to the self-service refueling and car-care needs of its customers through Cosmo The Card, a credit card issued by the Company. As of March 31, 2003, the number of cards in force was roughly 2.13 million. Cosmo Oil plans to expand this number to about 3.72 million by March 31, 2006 through a proprietary automated card issuance system and by encouraging service stations to issue more cards. We believe that increasing the sales ratio of card members at our service stations is an important step toward developing the Cosmo brand and improving profitability. With synergistic effects from reforming the distribution system and improving customer satisfaction, we aim to increase profits of affiliated dealers through the development of our chain store operations in car-care and self-refueling into service stations operated by affiliated dealers through experience gained in directly operated service stations and through sales subsidiaries. We also aim to enhance revenues from the use of our brand name, contributing further to higher profits. Through these efforts, Cosmo Oil plans to create ¥12.8 billion in value in its marketing division over the next three years by March 31, 2006.

Creating value in supply operations

The Company aims to improve the value added by its four highly competitive refineries by March 31, 2006. The Company plans to improve value with programs to increase profits, renovate gasoline facilities, advance wholesale electricity supply operations at the Yokkaichi Refinery, and improve the yield ratio of value added products. The Sakaide Refinery is positioned as a comprehensive energy supply base in plans to make inroads into the gas-based energy business. In cooperation with Shikoku Electric Power Co., Inc., Cosmo Oil is proceeding with a feasibility study for using the Sakaide Refinery as an LNG base.

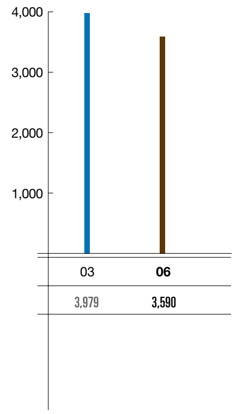
Cosmo Oil is investing in three of its four refineries, and is retooling facilities at the Sakaide Refinery to increase the efficiency of new capital investment to meet stricter regulations for gasoline sulfur content. This will allow for investment savings of about ¥10.0 billion, for an investment of approximately ¥13.9 billion, which is considerably less than other companies and an estimated decline in refining costs by ¥3.0 billion per year. The Company has decided to reduce topper capacity at the Sakaide Refinery and the Yokkaichi Refinery, located in central Japan, by 30 thousand barrels per day and 20 thousand barrels per day, respectively, after spring 2004. The Company expects capacity utilization to increase to 87-90% as a result, compared with 82% in fiscal 2002. The Company is constructing an optimal operational structure through the implementation of enterprise resource planning (ERP) to reinforce supply chain management (SCM). With this structure, we will establish a self-administrating management response to supply and demand balances, inventory adjustments, and production volumes to realize low-cost operations and higher value added in production. Through these efforts, Cosmo Oil plans to create ¥8.0 billion in value over the next three years in supply operations.

Creating value in new businesses

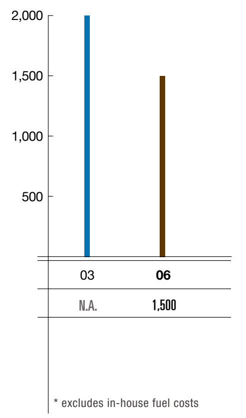
The Cosmo Oil Group is working to evolve into a comprehensive energy company with electrical power and LNG businesses in response to changes in the operating environment, including deregulation in the electrical power and gas sectors. In electrical power operations, the Company started supplying wholesale electricity from Yokkaichi to Chubu Electric Power Co., Inc. in July 2003. Cosmo Oil is also advancing operations in dispersed power generation and retail electricity supply by selling electricity generated by diesel power generators the Company financed and installed next to supermarkets and hospitals. The Company is also making inroads into the renewable energy field including wind power generation. In LNG operations, Cosmo Oil is constructing an LNG base next to its Sakai Refinery, near a major consumption area, and plans to begin operations in the fiscal year ending March 31, 2006. We are also selling LNG to large-lot customers by participating in LNG Chubu Corporation, an LNG marketing company established with Chubu Electric Power.

Cosmo Oil launched a new company involved in the ERP consultation business for other companies, based on in-house knowledge of introducing ERP package provided through SAP, a suite of software applications for integrating management accumulated through Group operations. We expect to create ¥6.6 billion in value over the next three years through these and other efforts in new businesses.

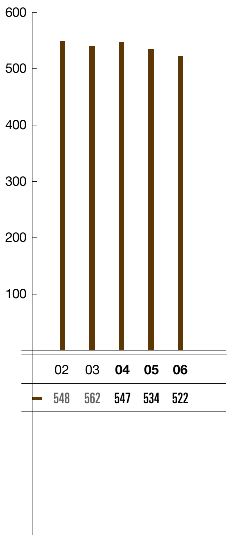
PERSONNEL REDUCTION TARGET



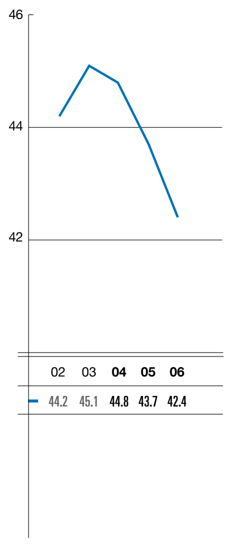
REFINING COSTS TARGET
(yen/kl)



INTEREST-BEARING DEBT TARGET
(billions of yen)



INTEREST-BEARING DEBT RATIO
(%)



EFFORTS AT RATIONALIZATION

Cosmo Oil is promoting rationalization measures in supply, sales, distribution and administration.

Of these areas, administration has the highest potential for earnings improvement, and we are strengthening management in the administration division while streamlining based on a personnel plan. The Company plans to achieve ¥9.4 billion in rationalization effects in the administration division through measures including the reduction of personnel to 3,590 by March 31, 2006, including mandatory retirees, from the current force of 3,979 Group personnel. While increasing work efficiency, we plan to increase personnel in value added fields such as electrical power operations, IT-related areas and service station supervisors.

In supply operations, we are making efforts to reduce fixed and variable costs in accordance with personnel reductions and lower maintenance expenses while working to conserve energy by saving fuel and electricity used at refineries. In addition to minimizing VLCC shipping costs, the Company aims to reduce refining costs at its refineries and improve refining competitiveness and while achieving to reduce refinery costs to ¥1,500/KL, which exclude in-house fuel expenses. Through these efforts, Cosmo Oil expects to realize ¥7.6 billion in rationalization effects in supply operations.

In sales, we aim for rationalization effects of ¥1.3 billion through cost reductions including personnel expenses. In distribution, we plan to realize ¥2.8 billion in streamlining effects from lower freight charges and more efficient operation of our oil storage facilities.

ACHIEVING BALANCE SHEET TARGETS FOR ASSETS AND LIABILITIES

Many of our investors believe that there is a pressing need to reduce interest-bearing debt. Cosmo Oil is fully aware of the importance of strengthening its financial position by cutting interest-bearing debt. As such, the Company plans to slash interest-bearing debt about 8% to ¥522.0 billion by the fiscal year ending March 31, 2006. While this amount may be considered to be small, the numerical target is achievable in our opinion and will not encumber operations in terms of cash flow. To reduce interest-bearing debt, the Company plans to use ¥38.0 billion in free cash flow from operating activities and ¥10.8 billion in gains from the sale of land used as a refinery and oil depot. The Company plans to achieve a solid financial position by increasing the shareholders' equity ratio to 20.3% in line with higher shareholders' equity.

TO OUR SHAREHOLDERS

We hope that by explaining our Consolidated Medium-Term Management Plan we were able to dispel any doubts or concerns investors may have had over our management policies. We will continue to take every opportunity to communicate with our shareholders the direction and policies of management at Cosmo Oil.

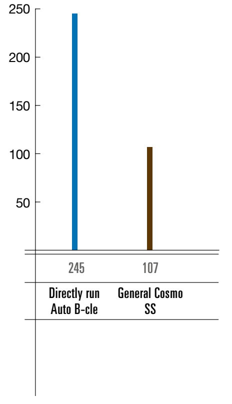
For those investors who still hold reservations, feel free to contact Cosmo Oil at your earliest convenience so that we may clear up any remaining issues.

We ask for your continued support and consideration as we implement the measures in our plan for future growth and stability.

COMPETITIVE ADVANTAGES BROUGHT BY AUTO B-CLES

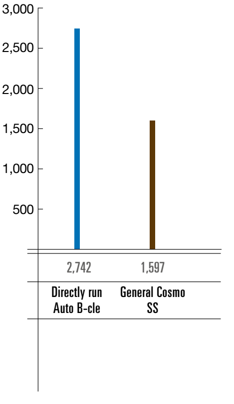
AUTOMOBILE FUEL SALES VOLUME

(kl/month)



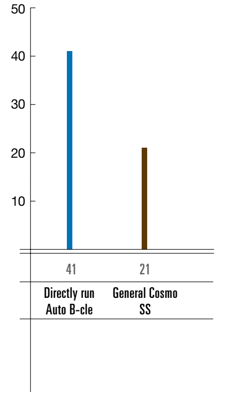
GROSS MARGIN FROM CAR-CARE BUSINESS

(1,000 yen/month)



SHARE OF COSMO THE CARD SALES AGAINST TOTAL SALES

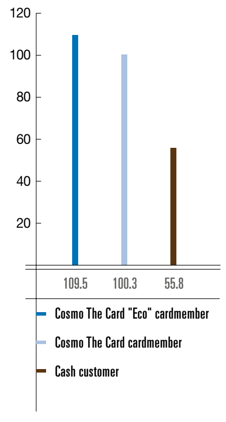
(%)



COMPETITIVE ADVANTAGES BROUGHT BY COSMO THE CARD

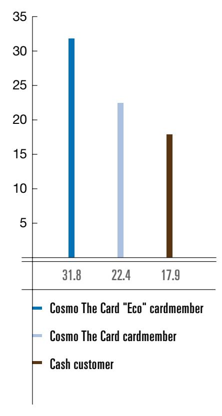
AUTOMOBILE FUEL PURCHASE VOLUME

(l/month)



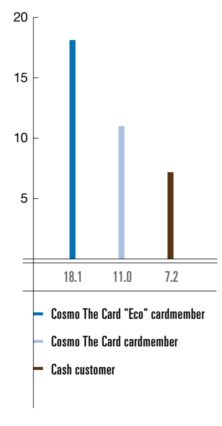
HIGH OCTANE GASOLINE PURCHASE RATIO

(%)



ADDED VALUE

(yen/l)



OIL MARKETING

At Cosmo Oil, our most important business is selling oil products, and all of our business activities are concentrated on this task.

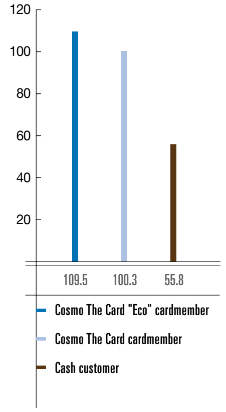
To increase sales potential in the fiscal year ended March 31, 2003, we worked at establishing the service station business model, enhancing customer loyalty and reforming the distribution and sales structures. First, we developed our Auto B-cle network as an earnings source for car-care products, and opened self-service stations to satisfy customer needs. Cosmo Oil steadily expanded the number of self-service stations and Auto B-cle facilities, from 109 and 217 service stations, respectively, as of March 31, 2002, to 285 and 428 locations as of March 31, 2003. Our marketing efforts were centered on Cosmo The Card to enhance customer loyalty. Cosmo The Card membership achieved a new record high in the fiscal year ended March 31, 2003, with 2.13 million cards in force. We aim to increase the number of cards in force to 3.72 million in the fiscal year ending March 31, 2006.

In reforms to the distribution and sales structures, we embarked on the basic policy of strengthening profitability in sales by increasing the return of profits to Cosmo Oil through a bottom-up approach of increasing the earnings capabilities of all service stations, and by aiming to increase profit margins at affiliated dealers. The Company dispatched supervisors to their service stations to improve the NV index, an indicator of management and earnings performance at its service stations, and made every effort to acquire loyal, repeat-visit customers.

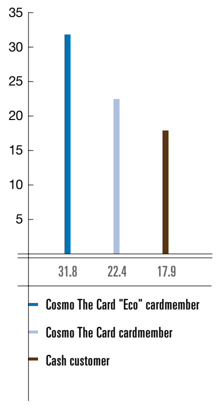
However, our bottom-up strategy, which took on a convoy-fleet approach for affiliated dealers, was not as effective as we initially anticipated. Customer needs are inexorably changing at an ever-quickening tempo. To keep pace with customer needs, we believe it is necessary to develop service stations from a top-down approach by opening directly operated flagship stores and then introducing to service stations operated by affiliated dealers our business know-how accumulated through operations of our flagship service stations. The Consolidated Medium-Term Management Plan follows a strategy for increasing the proportion of sales from directly operated service stations and through marketing subsidiaries.

COMPETITIVE ADVANTAGES BROUGHT BY COSMO THE CARD

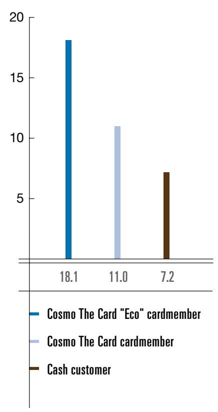
AUTOMOBILE FUEL PURCHASE VOLUME
(l/month)



HIGH OCTANE GASOLINE PURCHASE RATIO
(%)



ADDED VALUE
(yen/l)



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SUPPLY AND REFINING

Maximizing its strengths derived from an integrated production and sales structure and optimal refinery locations, Cosmo Oil made concerted efforts to maximize added value of production through a best mix of sales, production capacity and crude oil selectivity. Cost reductions at the supply and refining stages came naturally in the creation of this integrated production and sales structure.

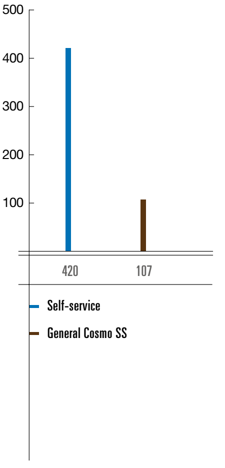
In reforming the supply structure, Cosmo Oil has implemented a variety of successful measures. Since the Company formed an alliance with Nippon Oil Corporation (then Nisseki Mitsubishi Oil Co., Ltd.), the partners merged their oil tanker operations with those of Nippon Global Tanker Co., Ltd. and are promoting the joint arrangement of vessel charters and deliveries. The partners expanded on consigned refining operations by using an integrated linear programming system that supports the optimal operation of both company's oil refineries.

To maintain our cost competitiveness, which is already at the top of its class in the industry, we implemented a ¥700 per kiloliter cost reduction project that reduced refining costs and achieved higher efficiencies through the review of extra cost reduction measures. At the same time, we made every effort to ensure safe and stable operations by reinforcing our security management activities. During the fiscal years ending March 31, 2004 to 2006, we aim to increase competitiveness further by working to reduce costs an additional ¥820 per kiloliter, with ¥390 from cost reductions and ¥430 from efficiency gains. We plan to reduce refining costs, excluding fuel expenses to ¥1,500 per kiloliter by March 31, 2006.

COMPETITIVE ADVANTAGES BROUGHT BY SELF-SERVICE SSS

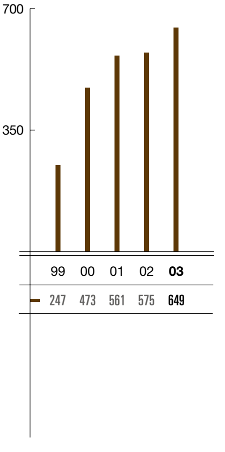
AUTOMOBILE FUEL SALES VOLUME

(kl/month)



COST REDUCTIONS IN REFINING

(yen/kl)



DISTRIBUTION

During the fiscal year under review, the Company strove to slash distribution expenses by effectively using tank trucks, wagons, and domestic vessels. Our depots were also helpful for cost reduction.

In addition, to improve the efficiency of distribution, the Company expanded a product-barter arrangement with Nippon Oil Corporation and increased the share of tank truck shipments that proceed directly from refineries to service stations without passing through transshipping depots.

OIL EXPLORATION AND PRODUCTION

In the Middle East region, especially in the Abu Dhabi and Qatar areas, the Company maintained stable business operations at oil facilities of Abu Dhabi Oil Co., Ltd. and United Petroleum Development Co., Ltd. Additionally, at the two recently discovered oil fields in Australia, Cosmo Oil Ashmore Ltd., in which Cosmo Oil has a 54.35% equity share, aims to ramp up Oil production to 7,000 barrels per day by October 2004. Cosmo Oil will make every effort to stabilize crude oil supplies and strengthen its earnings foundation. At the same time, the Company is working hard to strengthen ties with oil-producing nations through technological and personnel exchanges.

DEVELOPMENT OF ELECTRICAL POWER BUSINESS AND NEW ENERGY SOURCES

We constructed independent power producer (IPP) facilities for Chubu Electric Power in Yokkaichi, and started commercial operations in July 2003. Moreover, we spent much effort in providing electric and heat power through cogeneration power facilities, which contributed to securing new customers for 10,000 kilowatts service during fiscal 2003. In addition, we started to release our products for exhaust gas purification systems effective in reducing environmental impact. Through these activities, we strove to diversify our revenue streams.

R&D

At Cosmo Oil, we work hard at developing next-generation energy technologies.

We participate in a special research project with the Japan National Oil Corporation (JNOC) involving natural gas liquid-fuel technologies. As a result of this research, we succeeded in developing an innovative catalyst applicable to gas-to-liquid (GTL) technology for the manufacture of clean fuel, such as kerosene, that does not contain sulfur or aromatic compounds. In the joint project with the JNOC, Cosmo Oil conducted empirical testing at a pilot plant in Yufutsu, Tomakomai City, Hokkaido, in the northern part of Japan. In November 2002, we succeeded in producing Japan's first GTL oil using our developed catalyst.

We are making aggressive efforts to create an infrastructure for the supply of hydrogen as an active participant in the Japan Hydrogen & Fuel Cell Demonstration Project (JHFC). The project is supported by the Ministry of Economy, Trade and Industry (METI), and operated by the Engineering Advancement Association of Japan (ENAA) and the Japan Electric Vehicle Association (JEVA) for the promotion of fuel cell vehicles, which are expected to take a leading role as next-generation clean-energy automobiles. We constructed the Yokohama-Daikoku Hydrogen Station at one of our sites in the city of Yokohama, which has been operating since in March 2003. At this next-generation refueling station, the hydrogen is made from sulfur-free gasoline utilizing Cosmo Oil's technology, and supplied for fuel cell vehicles. In addition, this station acts as a base of operations for the JHFC project "JHFC Park," with a showroom and garage for fuel cell vehicles.

COMMUNITY INVOLVEMENT

Cosmo Oil's social contributions follow three themes: automobile culture, environmental protection, and international contributions. Environmental protection in particular is the focus of our social activities, and we would like to briefly introduce three of our activities in fiscal 2003.

Since 1993, one of our core activities for the benefit of society, especially a car-dominated society, has been the Cosmo Waku Waku Camp, a program for elementary school students that have lost one of their parents by traffic accident to experience nature firsthand. In fiscal 2003, we began to emphasize education about the environment and implemented Cosmo Children's Earth School as a part of our social contribution activities. The Cosmo Children's Earth School is a year-long environmental education program for elementary schoolchildren that centers on our Global Environment Book for kids and includes the Cosmo Waku Waku Camp program. A staff of volunteers from Cosmo Oil runs the programs.

As a part of our efforts to protect the global environment, we promote Cosmo Earth Conscious Act, a campaign that calls on radio listeners to help protect and preserve the global environment, in conjunction with TOKYO FM radio and 37 radio stations affiliated with Japan FM Network (JFN). We are promoting the Clean Campaign at 37 locations around Japan as a part of this initiative. In addition to activities to clean up the environment, we sponsored events that are entertaining as well as informative, including seminars on the environment with Mr. Ken Noguchi, an alpinist involved in cleaning the slopes of Mt. Everest, and also live concerts with famous artists in Japan.

In April 2002, we launched an initiative with three project concepts comprising the revitalization and protection of Japan's environment, revitalization and protection of the environment in developing nations, and environmental education. To support this initiative, we also established the Cosmo Oil Eco Card Fund with contributions from Cosmo The Card "Eco" members and with funds from Cosmo Oil. For example, in our project to revitalize and protect the environment in developing nations, we are promoting the Rain Forest Preservation Project in an attempt to switch from slash-and-burn agricultural methods to sustainable, stationary farming in Papua New Guinea and the Solomon Islands in the South Pacific. Beginning in fiscal 2002, we began local surveys and pilot projects, and in fiscal 2003, we bolstered our support for the proliferation of agricultural technology and maintenance of infrastructure. With the catchphrase "Living with our planet," we aim to continue encouraging various grass-roots activities toward the achievement of sustainable growth in society.

WAKU WAKU CAMP

The Cosmo Waku Waku Camp has been held annually since 1993. Managed mostly by Cosmo Oil employees, every year we help numerous children create long-lasting and enjoyable memories of their summer vacation.

COSMO EARTH CONSCIOUS ACT CLEAN CAMPAIGN

Through the Cosmo Earth Conscious Act, we enlist 37 FM radio stations to summon volunteers to help pick up garbage in various areas. On this cold winter day, many listeners turned out to help clean up streets in Tokyo, which is shown above.

PROTECTION OF THE ENVIRONMENT IN DEVELOPING NATIONS

We donated a rice-milling machine to help local farmers in their transition from slash-and-burn agriculture to stationary farming. The picture above shows children having fun with the first batch of milled rice.

ENVIRONMENT

Cosmo Oil considers the environment one of the most important issues facing Group management. Accordingly, we formulated the Medium-Term Environmental Plan in fiscal 2003, launching Companywide efforts to reduce environmental impact.

As a part of our Medium-Term Environmental Plan, we not only engage in various activities for the benefit of society, but also strive to solve environmental issues through technological development. For example, excess sludge emitted from wastewater treatment facilities is the most prevalent type of industrial waste from our refineries.

In April 2003, we succeeded in trial operations of our technology to reduce the volume of excess sludge at our Sakaide Refinery—the first such application in Japan.

We expect annual emissions of excess sludge to decrease by approximately 400 tons at the Sakaide Refinery as a result of this technology.

Cosmo Engineering Co., Ltd., a Cosmo Group consolidated company with Cosmo Oil shareholding totaling 50%, develops and markets volatile organic compound (VOC) recovery equipment CAD-VRU, that enables the recovery of VOCs of varying concentrations. VOCs disperse easily into the atmosphere, and are known to cause global warming as well as photochemical smog and other atmospheric pollution. Accordingly, measures are needed to counter VOCs.

The Cosmo Oil Group will continue to develop VOC recovery equipment in an effort to clean up the environment through recovery at oil-related facilities in the Middle East.

We are also working to develop screening kits for chemical substances such as dioxins using immunoassay technology.

Through cooperation with some independent institutions, we have tested the performance of our dioxin screening kit with positive results in soil, ash, gas emissions and sediment samples.

In December 2002, we successfully developed a simple dioxin screening kit called ImmunoEco DXN (trademark pending), and started sales.

The need for a simple way to monitor dioxins in the environment has grown sharply in recent years, and we believe that our simple dioxin screening kit will fulfill some of these needs.

CORPORATE ETHICS

In the course of our review of risk management activities, we have continued to focus and redouble our attention on two issues. First, we have acknowledged room for improvement in the degree of monitoring compliance in daily work activities. Second, we have discovered that some work processes have vague rules, and should be managed with clear internal oversight.

Recently, a wave of company scandals has undermined public confidence in corporate activities. In response, we have decided to formulate the Cosmo Oil Group Corporate Ethics Regulations and to strengthen our compliance efforts.

ETHICAL HIERARCHY

THE CORPORATE PRINCIPLES

CORPORATE ETHICS REGULATIONS (CORPORATE BEHAVIOR GUIDELINES)

INTERNAL REGULATIONS

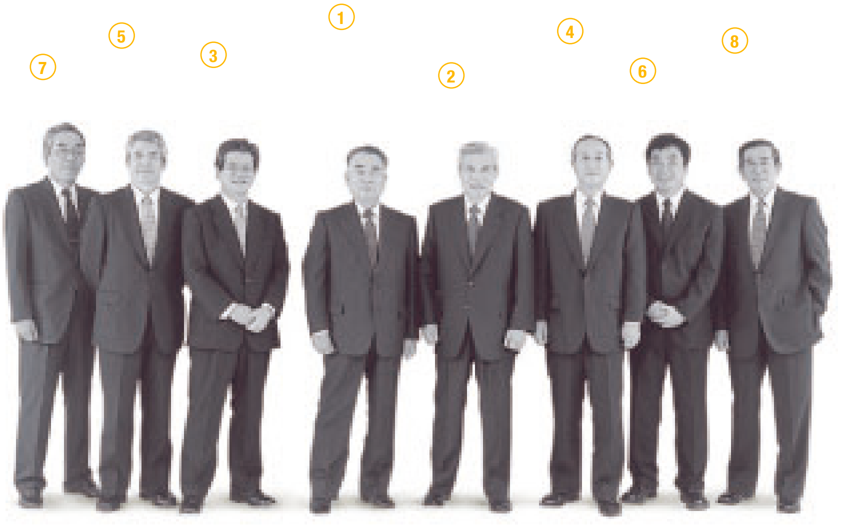
COSMO OIL GROUP CORPORATE ETHICS REGULATIONS

Based on the corporate principles of the Cosmo Oil Group, the Company has formulated the Corporate Ethics Regulations for corporate activities in dealing with the wide spectrum of stakeholders, and established the Corporate Ethics Committee as an organization to promote, implement and oversee measures for the ethical behavior of directors and employees.

Chaired by the president, the Corporate Ethics Committee also includes as members the executive vice president and the managing directors of the Corporate Planning Department 1, Personnel Department and General Affairs Department. The chairman can designate a director outside the committee to become a member as necessary. Auditors of Cosmo Oil are allowed to participate in and voice opinions at committee meetings. The Corporate Ethics Committee meets regularly once a year in May, and also when it is deemed necessary.

The Company has established the Cosmo Oil Group Corporate Ethics Promotion Office in the General Affairs Department to support the activities of the Corporate Ethics Committee. The Company has also established a hotline for employees to contact the Corporate Ethics Promotion Office. Group and section managers, as well as the presidents of applicable companies, are responsible for promoting corporate ethics in their respective domains, and for reporting any matters of importance directly to the Corporate Ethics Promotion Office.

In the future, Cosmo Oil will continue to review its regulations and guidelines as is considered necessary in an effort to consistently improve its risk management structure.



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CHAIRMAN AND CHIEF EXECUTIVE OFFICER

1 **Keiichiro Okabe***

EXECUTIVE VICE PRESIDENT

2 **Yaichi Kimura***
(RESPONSIBLE FOR INTERNAL AUDITING OFFICE AND SECRETARIAT)

MANAGING DIRECTORS

3 **Yoshiyuki Yuasa**
(RESPONSIBLE FOR INTERNET BUSINESS DEPT., GENERAL AFFAIRS DEPT., SALES CONTROL OFFICE, WHOLESALES DEPT., RETAIL MARKETING DEPT., WHOLESALES MARKETING DEPT. AND DISTRIBUTION DEPT.)

4 **Kazuhisa Tamura**
(GENERAL MANAGER, OSAKA BRANCH OFFICE)

5 **Keizo Morikawa**
(RESPONSIBLE FOR CORPORATE PLANNING DEPT. 1, CORPORATE PLANNING DEPT. 2, PROJECT DEVELOPMENT DEPT. AND ACCOUNTING DEPT.)

6 **Yasuo Sakata**
(RESPONSIBLE FOR AFFILIATE RELATIONS DEPT., FINANCE DEPT. AND INDUSTRIAL FUEL MARKETING DEPT.)

7 **Masahide Furuzono**
(RESPONSIBLE FOR R&D DEPT., REFINING & TECHNOLOGY DEPT., SAFETY & ENVIRONMENT CONTROL DEPT. AND PURCHASING CENTER)

8 **Kenji Hosaka**
(RESPONSIBLE FOR PERSONNEL DEPT., DEMAND & SUPPLY COORDINATION DEPT. AND INTERNATIONAL DEPT.)

* REPRESENTATIVE DIRECTOR

DIRECTORS

Naomasa Kondo
(GENERAL MANAGER, R&D DEPT.)

Michinori Uriu
(GENERAL MANAGER, CHIBA REFINERY)

Shunsuke Torigoe
(GENERAL MANAGER, TOKYO BRANCH OFFICE)

Toshinori Tsujiuchi
(GENERAL MANAGER, RETAIL MARKETING DEPT.)

Shinobu Takatani
(GENERAL MANAGER, PERSONNEL DEPT.)

Kaoru Kawana
(GENERAL MANAGER, GENERAL AFFAIRS DEPT.)

Seizo Suga
(GENERAL MANAGER, REFINING & TECHNOLOGY DEPT.)

Satoshi Miyamoto
(GENERAL MANAGER, FINANCE DEPT.)

Michio Shimizu
(GENERAL MANAGER, CORPORATE PLANNING DEPT. 2)

Masatoshi Sawada
(GENERAL MANAGER, YOKKAICHI REFINERY)

CORPORATE AUDITORS

Susumu Eda

Yoshihisa Matsumiya

Makoto Suzuki

Hirokazu Ando**

AUDITOR

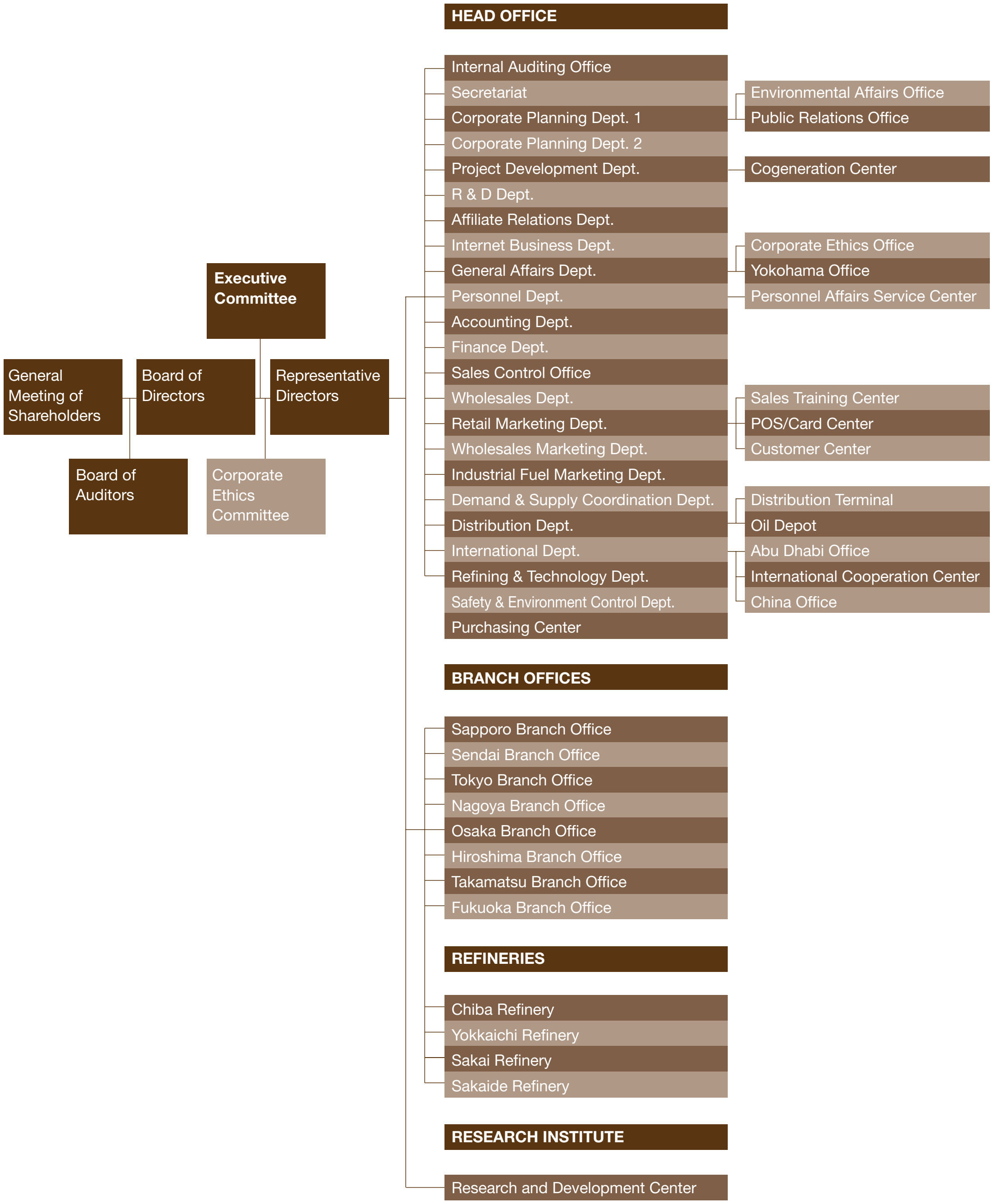
Hajime Miyamoto**

** INDEPENDENT AUDITOR

(As of June 27, 2003)

ORGANIZATION CHART

(As of June 27, 2003)



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CONSOLIDATED 11-YEAR SUMMARY

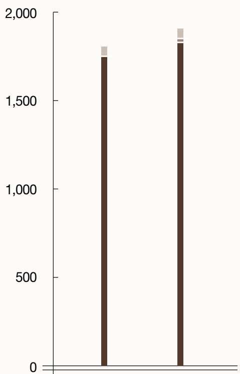
COSMO OIL COMPANY, LIMITED and Its CONSOLIDATED SUBSIDIARIES
Years ended March 31

	Millions of yen				
	1993	1994	1995	1996	1997
FOR THE YEAR:					
Net sales	¥1,736,123	¥1,609,074	¥1,588,003	¥1,556,171	¥1,729,495
Petroleum	N.A.	N.A.	N.A.	N.A.	N.A.
Oil resource development	N.A.	N.A.	N.A.	N.A.	N.A.
Other	N.A.	N.A.	N.A.	N.A.	N.A.
Cost of sales	1,517,005	1,374,891	1,359,869	1,350,743	1,508,186
Selling, general and administrative expenses	155,591	162,638	177,552	173,359	185,900
Operating income	63,527	71,545	50,582	32,069	35,409
Income (loss) before income taxes and minority interests	45,923	46,167	35,088	14,473	18,060
Net income (loss)	17,545	8,697	13,065	6,545	8,839
Depreciation and amortization	32,565	36,049	36,144	37,700	35,738
Capital expenditures	47,605	47,542	51,549	41,613	31,021
Research and development costs	N.A.	N.A.	N.A.	N.A.	N.A.
Cash flows from operating activities	68,668	53,914	47,525	62,798	(25,553)
Cash flows from investing activities	(35,160)	(31,520)	(35,697)	(55,764)	13,972
Cash flows from financing activities	(41,492)	(9,943)	(31,633)	(584)	2,065
AT YEAR-END:					
Total shareholders' equity	134,606	158,337	183,472	185,836	189,790
Total assets	1,283,629	1,239,141	1,234,897	1,286,000	1,287,172
Interest-bearing debt	692,106	663,745	640,083	645,297	654,233
	Yen				
AMOUNTS PER SHARE:					
Net income (loss) (Note)	¥ 30.96	¥ 14.98	¥ 21.12	¥ 10.36	¥ 13.99
Cash dividends	7.00	8.00	8.00	8.00	8.00
Shareholders' equity	237.55	266.62	290.43	294.18	300.44
RATIOS:					
Return on equity (ROE) (%)	13.6	5.9	7.6	3.5	4.7
Return on assets (ROA) (%)	1.4	0.7	1.1	0.5	0.7
Interest-bearing debt ratio (%)	53.9	53.6	51.8	50.2	50.8

Notes: 1. U.S. dollar amounts in this report have been translated, for convenience only, at the exchange rate of ¥120.20=$1.00, the prevailing rate at March 31, 2003.
2. Effective fiscal 2003, the Company adopted a new standard for earnings per share, prior year figures have not been restated.
3. The Company began reporting R&D expenses from fiscal 2000.

			Millions of yen			Thousands of U.S. dollars (Note)
1998	1999	2000	2001	2002	**2003**	**2003**
¥1,680,478	¥1,443,457	¥1,584,678	¥1,845,842	¥1,813,838	**¥1,902,768**	**$15,830,017**
N.A.	N.A.	N.A.	N.A.	1,746,659	**1,830,940**	**15,232,446**
N.A.	N.A.	N.A.	N.A.	10,856	**9,773**	**81,306**
N.A.	N.A.	N.A.	N.A.	56,323	**62,055**	**516,265**
1,473,349	1,265,443	1,427,640	1,664,757	1,659,438	**1,754,853**	**14,599,443**
179,228	155,154	140,373	144,503	132,343	**123,748**	**1,029,517**
27,901	22,860	16,665	36,582	22,057	**24,167**	**201,057**
14,466	4,351	13,313	22,460	(1,881)	**12,966**	**107,870**
5,340	839	4,841	8,674	(5,190)	**3,426**	**28,502**
34,228	21,773	23,436	24,672	23,492	**22,843**	**190,042**
34,175	31,325	22,593	17,108	25,430	**24,132**	**200,765**
N.A.	N.A.	4,567	3,566	3,805	**3,867**	**32,171**
64,558	17,718	(42,698)	58,824	76,646	**(26,975)**	**(224,418)**
(59,532)	(17,806)	13,538	27,348	(13,944)	**(12,811)**	**(106,581)**
(5,295)	(14,592)	31,271	(87,229)	(88,546)	**10,127**	**84,252**
190,716	186,496	179,536	177,773	194,303	**193,595**	**1,610,608**
1,277,022	1,229,285	1,294,843	1,319,960	1,242,171	**1,246,730**	**10,372,130**
652,769	641,562	687,563	610,686	548,653	**562,649**	**4,680,940**
			Yen			U.S. dollars (Note)
¥ 8.45	¥ 1.33	¥ 7.76	¥ 13.81	¥ (8.24)	**¥ 5.42**	**$0.05**
8.00	6.00	6.00	6.00	6.00	**6.00**	**0.05**
301.91	295.23	286.75	282.09	308.65	**306.67**	**2.56**
2.8	0.4	2.6	4.9	—	**1.8**	
0.4	0.1	0.4	0.7	—	**0.3**	
51.1	52.2	53.1	46.3	44.2	**45.1**	

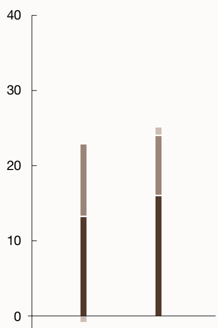
SEGMENT SALES*
(billions of yen)



	02	03
Petroleum	1,746	1,830
Oil resource development	10.8	9.7
Other	56.3	62.0

* excludes inter-segment sales

SEGMENT OPERATING INCOME (LOSS)
(billions of yen)



	02	03
Petroleum	13.8	16.1
Oil resource development	8.1	7.9
Other	(0.8)	0.5

OVERVIEW

Business activity remained stagnant for fiscal 2003, ended March 31, 2003, owing to declining capital expenditures and waning growth in exports. Japan's economy continued to be hindered by lifeless personal consumption resulting from severe employment and wage conditions, and financial as well as economic uncertainties. Additionally, there was apprehension about the health of the U.S. economy.

Crude oil prices, which began the year at $24/barrel for Dubai crude, continued to trade between $24-$26 per barrel until October, despite an increasingly tense situation regarding Iraq. Thereafter, production increases by OPEC led to a temporary dip in oil prices, which then rebounded and trended higher than $30/barrel by February 2003, given the strike in Venezuela and the increasing possibility of war in Iraq. However, as the prospects for an early end to the war in Iraq increased, oil prices weakened back to $24/barrel.

In the foreign exchange markets, the yen began the fiscal year trading around ¥133/US dollar, but as concerns regarding a U.S. recession increased, the yen traded stronger, at around ¥117/US dollar in July. While intervention in the exchange markets by the monetary authorities temporarily pushed the yen back to ¥125/US dollar by October, the growing threat of war in Iraq led to a renewed rise in the yen, which was trading at the ¥120/US dollar level by the end of the fiscal year.

Against this backdrop, the Cosmo Oil Group, under its two-year Value Creation 21 (VC21) management plan that called for "enterprise value enhancement" as well as "absolute competitive advantage," pursued management reforms to create value-added across all of its businesses, including refinery supply, sales, distribution and administration.

However, the generally adverse operating environment in the petroleum industry limited gains for the year. Consolidated net sales rose ¥88.9 billion, or 4.9%, to ¥1,902.8 billion (US$15,830.0 million), while net income of ¥3.4 billion (US$28.5 million) was posted, marking an improvement of ¥8.6 billion.

SALES BY SEGMENT

PETROLEUM

Domestic petroleum demand was characterized by declining sales of diesel fuel, reflecting weak business conditions. Demand for gasoline was relatively favorable. Kerosene demand was supported by higher heating oil consumption owing to a cold winter, while demand for heavy fuel oil for electricity generation surged as oil-fired electric power stations were restarted due to the closure of nuclear electric power stations. The domestic petroleum products market saw generally rising prices, reflecting higher crude oil prices, but the operating environment as a whole was challenging and sales competition was severe. Thus the rise in crude oil prices could not be fully passed on to product selling prices.

Total sales for the segment, including inter-segment sales, rose ¥82.7 billion, or 4.7%, to ¥1,832.6 billion (US$15,246.2 million), reflecting higher selling prices and increasing demand for petroleum products. The operating profit recovery was supported by value creation and rationalization countermeasures implemented under VC21. These measures, plus sales volume growth, the favorable impact of weighted average inventory valuation and a reduced cost of sales, were instrumental in offsetting the delay in transferring higher crude oil prices to product prices and other negative factors related to deteriorating market conditions. Consequently, operating income for the petroleum segment increased ¥2.4 billion, or 17.2%, to ¥16.2 billion (US$134.7 million).

OIL RESOURCE DEVELOPMENT

Our oil resource development operations aim to achieve more stable and more highly developed supply capabilities by raising the ratio of oil that we directly develop, and by maintaining and expanding crude oil production volumes. Total sales for this segment rose ¥2.9 billion, or 9.4%, to ¥33.4 billion (US$277.8 million), while operating income declined ¥0.2 billion, or 2.4%, to ¥7.9 billion (US$66.1 million).

OTHER

The other businesses segment consists mainly of the purchase, sale and rental of real estate properties, construction and leasing of petroleum-related facilities, and insurance operations. Total sales for this segment declined ¥3.3 billion, or 4.3%, to ¥73.9 billion (US$615.1 million), reflecting weak domestic market conditions. However, efforts to rationalize and make operations more efficient resulted in a operating income of ¥0.5 billion (US$4.5 million), compared with an operating loss of ¥0.8 billion in the previous fiscal year.

COSTS, EXPENSES AND EARNINGS

On a consolidated basis, the cost of sales increased 5.7% from the previous fiscal year, to ¥1,754.9 billion (US$14,599.4 million), while the gross profit ratio deteriorated by 0.7 percentage points to 7.8%. The increase in the cost of sales was largely due to our inability to completely pass higher crude oil prices on to product selling prices.

On the other hand, selling, general and administrative (SG&A) expenses fell 6.5% to ¥123.7 billion (US$1,029.5 million), and the SG&A ratio to net sales declined by 0.8 percentage points to 6.5%. This ¥8.6 billion decline in SG&A expenses was largely attributable to cost savings achieved through rationalization throughout the Cosmo Oil Group.

Net other expenses declined by ¥12.7 billion to ¥11.2 billion (US$93.2 million), reflecting a significant decline in write-down of marketable securities and investments in securities, a decline in interest expenses, and reduced losses on the sale of investments in securities.

Reflecting the above, the Company recorded income before income taxes and minority interests of ¥13.0 billion (US$107.9 million), compared with a loss of ¥1.9 billion the previous fiscal year, representing a ¥14.8 billion improvement.

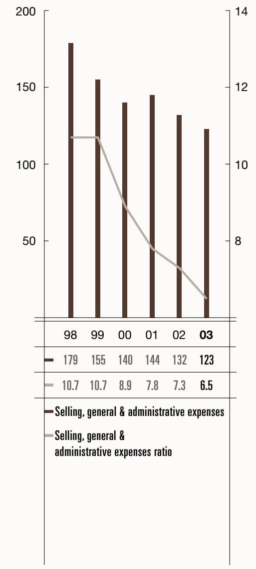
As a result, net income totaled ¥3.4 billion (US$28.5 million), compared with a loss of ¥5.2 billion in the previous fiscal year, an improvement of ¥8.6 billion. Net income per share was ¥5.42 (US$0.05), compared with net loss per share of ¥8.24 in the previous fiscal year.

FINANCIAL POSITION

The Company is working to improve its balance sheet structure as part of its strategy of increasing the efficiency of total capital employed. In particular, the

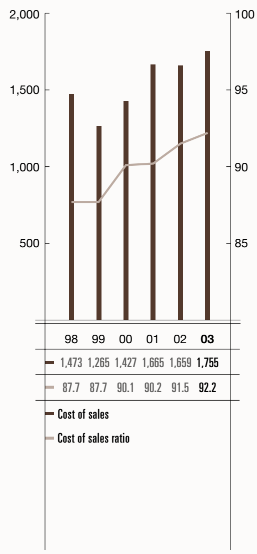
SG&A EXPENSES AND SG&A EXPENSES RATIO

(billions of yen, %)

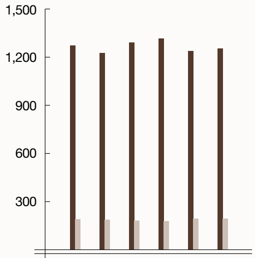


COST OF SALES AND COST OF SALES RATIO

(billions of yen, %)

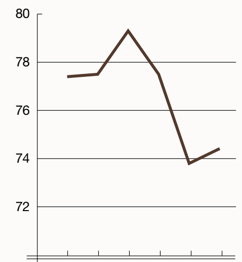


TOTAL ASSETS AND TOTAL SHAREHOLDERS' EQUITY
(billions of yen)



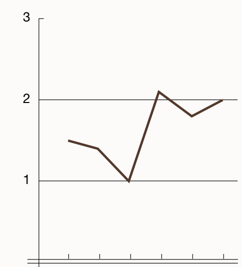
	98	99	00	01	02	03
Total assets	1,277	1,229	1,294	1,319	1,242	**1,246**
Total shareholders' equity	190	186	179	177	194	**193**

DEBT-TO-TOTAL CAPITAL RATIO
(%)



	98	99	00	01	02	03
	77.4	77.5	79.3	77.5	73.8	**74.4**

INTEREST COVERAGE
(times)



	98	99	00	01	02	03
	1.5	1.4	1.0	2.1	1.8	**2.0**

Company is using cash reserves and the proceeds from the sale of idle assets to reduce interest-bearing debt, while working to increase asset liquidity. At March 31, 2003, total assets increased slightly to ¥1,246.7 billion (US$10,372.1 million).

Total current assets rose 4.2% for the year to ¥557.5 billion (US$4,637.8 million). Cash and cash equivalents declined by ¥29.1 billion because gasoline excise taxes and petroleum taxes of ¥36.8 billion not paid at the end of the previous fiscal year because the last day of the fiscal year was a holiday were paid in the fiscal year under review. The ¥14.6 billion increase in receivables was attributable to expanded business operations at Cosmo Oil International Pte., Ltd., Cosmo Oil (U.K.) Plc. and Cosmo Engineering Co., Ltd. The ¥5.8 billion rise in inventories was due to higher inventory valuations reflecting the rise in oil prices that exceeded the effect of shrunken inventory volumes. The increase in other current assets reflected increased accounts receivable from oil barter arrangements with other oil companies.

Net property, plant and equipment declined by ¥10.6 billion to ¥555.6 billion (US$4,622.2 million), mainly owing to a ¥8.6 billion decrease in land following sales of idle properties. In other assets, investments in unconsolidated subsidiaries, affiliates and other securities declined by ¥6.8 billion reflecting revaluation losses arising from the general decline in stock prices.

Excluding minority interests, total liabilities increased by ¥3.9 billion to ¥1,028.4 billion. Current liabilities increased by ¥23.9 billion to ¥659.2 billion (US$5,484.4 million), as short-term loans and notes and accounts payable rose. Short-term and long-term interest-bearing debt increased by ¥14.0 billion, as the Company procured funds to redeem corporate bonds in fiscal 2004, and short-term debt for import financing increased, reflecting the rise in oil prices. Conversely, the Company repaid ¥29.3 billion of borrowings. The rise in accounts payable was attributable to an increase in oil barter accounts payable.

Total shareholder's equity declined by ¥0.7 billion to ¥193.6 billion (US$1,610.6 million), mainly as the result of a reversal in unrealized gains on securities of ¥2.1 billion the year previous to an unrealized loss of ¥0.7 billion. Conversely, the unrealized net gain (after deduction of deferred taxes) on land was ¥3.5 billion, owing to the sale of property with unrealized losses.

Capital expenditures totaled ¥24.1 billion, compared with ¥25.4 billion in the previous fiscal year. Capital expenditures in the petroleum segment were ¥21.2 billion, including ¥2.0 billion for the construction of electric power supply facilities for the Yokkaichi Refinery, and ¥8.2 billion for the construction of cogeneration production facilities. In addition, ¥5.9 billion was invested in construction and renovation of service stations, while ¥3.5 billion was invested for control facility system improvements. Capital expenditures in the oil resource development segment were ¥3.3 billion, of which ¥2.9 billion was spent for oil well improvements at the Company's Abu Dhabi Oil Co., Ltd. subsidiary.

CASH FLOWS

Cash and cash equivalents at the end of the fiscal year totaled ¥43.8 billion (US$364.5 million), ¥30.2 billion lower than at the end of the previous fiscal year. The fiscal year under review included cash and cash equivalents from newly consolidated and merged companies of ¥0.3 billion.

Net cash used in operating activities was ¥26.9 billion (US$224.4 million), compared with net cash provided by operating activities of ¥76.6 billion in the previous fiscal year, owing to increases in notes and accounts receivable, increases in other current assets, and a decrease in other current liabilities. The increase in receivables was attributable to expanded business operations at Cosmo Oil International Pte., Ltd., Cosmo Oil (U.K.) Plc. and Cosmo Engineering Co., Ltd., while the increase in other current assets reflected increased oil barter accounts receivable. The rise in inventories was attributable to higher inventory valuations reflecting the rise in oil prices. In addition, tax payments for gasoline excise taxes and petroleum taxes not paid in the previous fiscal year because the last day of the year fell on a holiday reduced operating cash flow by ¥36.8 billion. The impact of gasoline excise and petroleum taxes are unique to the oil industry. If the last day of the fiscal year falls on a holiday, these tax payments always negatively affect cash flow the following fiscal year. Without these tax payments, there would have been a net operating cash inflow of ¥9.8 billion.

Net cash used in investing activities totaled ¥12.8 billion (US$106.6 million), compared with ¥13.9 billion in the previous fiscal year. Cash outflows from payments for fixed asset purchases, and marketable and investment securities, as well as increases in intangible assets and deferred charges, were not completely offset by cash inflows from the disposal of fixed assets and marketable securities.

Net cash provided by financing activities was ¥10.1 billion (US$84.3 million), compared to net cash used in financing activities ¥88.5 billion in the previous fiscal year. This cash inflow was mainly due to an increase in short-term loans payable, proceeds from long-term loans payable, and proceeds from the issuance of straight bonds.

DIVIDENDS

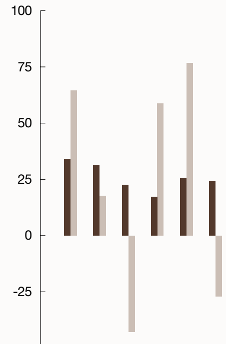
Cosmo Oil's basic dividend policy is to set dividend levels commensurate with performance. The Company determines dividend levels giving due consideration of financial improvement needs, capital investment needs for facility maintenance and renewal as well as strategic investments that promote rationalization, and value-added cash flow creation. In consideration of the above, the parent company maintained its cash dividends for the fiscal year at ¥6.00 ($0.05) per share, unchanged from the previous fiscal year. Consequently, the dividends on equity ratio increased slightly to 1.95% versus 1.94% the previous year.

OUTLOOK

Cosmo Oil's new "Consolidated Medium-Term Management Plan" (from fiscal 2004 through fiscal 2006) provides specific goals for improving earnings through rationalization and improved efficiency, while at the same time facilitating further diversification into electric power generation, expanding oil exploration and production, and LNG operations. Our earnings goals for fiscal 2006 (ending March 31, 2006) are for ¥66 billion in operating income and ¥31 billion in net income. The main financial goals under the plan are for a shareholders equity ratio of 20.3%, a return on equity ratio of 12.4%, and an interest-bearing debt dependency ratio of 42.0%. These goals include strategic capital investment of a total ¥111 billion yen over the next three years, which will be funded by internal cash flows consisting of 3-year cumulative net income of ¥69.8 billion and 3-year cumulative depreciation of ¥79.3 billion.

CAPITAL EXPENDITURES AND CASH FLOWS FROM OPERATING ACTIVITIES

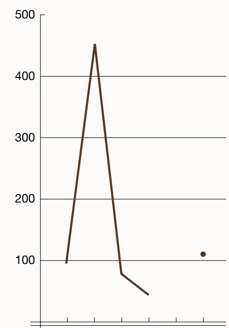
(billions of yen)



	98	99	00	01	02	03
Capital expenditures	34.1	31.3	22.5	17.1	25.4	24.1
Cash flows from operating activities	64.5	17.7	(42.6)	58.8	76.6	(26.9)

PAYOUT RATIO

(%)



	98	99	00	01	02	03
	94.6	451.6	78.1	43.6	—	110.4

CONSOLIDATED BALANCE SHEETS

COSMO OIL COMPANY, LIMITED and Its CONSOLIDATED SUBSIDIARIES
March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
ASSETS			
CURRENT ASSETS:			
Cash and deposits (Note 5)	¥ 65,310	¥ 36,185	$ 301,040
Marketable securities (Notes 5, 10 and 15)	11,625	7,425	61,772
Notes and accounts receivable, trade (Note 3)	194,279	208,858	1,737,587
Less allowance for doubtful accounts	(539)	(528)	(4,393)
	193,740	208,330	1,733,194
Inventories (Notes 2 and 4)	179,670	185,461	1,542,937
Other current assets (Note 13)	84,780	120,059	998,827
Total current assets	535,125	557,460	4,637,770
PROPERTY, PLANT AND EQUIPMENT (Notes 7 and 15):			
Land	358,570	349,958	2,911,464
Buildings and structures	361,956	363,631	3,025,216
Machinery and equipment	326,877	331,376	2,756,872
Construction in progress	23,482	28,779	239,426
	1,070,885	1,073,744	8,932,978
Less accumulated depreciation	(504,709)	(518,154)	(4,310,765)
Net property, plant and equipment	566,176	555,590	4,622,213
OTHER ASSETS:			
Investments in securities (Notes 10 and 15)	79,934	73,177	608,794
Long-term loans receivable	10,817	9,874	82,146
Other (Note 13)	55,542	54,325	451,956
Less allowance for doubtful accounts	(4,625)	(2,800)	(23,295)
Reserve for loss on investments in unconsolidated subsidiaries and affiliates	(798)	(896)	(7,454)
Total other assets	140,870	133,680	1,112,147
Total	¥1,242,171	¥1,246,730	$10,372,130

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	**2003**	**2003**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term loans and current maturities of long-term debts (Notes 6 and 15)	¥ 215,376	**¥ 248,367**	**$ 2,066,281**
Notes and accounts payable, trade (Notes 3 and 15)	197,864	**221,791**	**1,845,183**
Income, excise and other taxes payable	118,995	**87,499**	**727,945**
Accrued expenses and other current liabilities (Note 13)	103,123	**101,566**	**844,975**
Total current liabilities	635,358	**659,223**	**5,484,384**
Long-term debts, less current maturities (Note 6)	333,277	**314,282**	**2,614,659**
Deferred tax for revaluation reserve for land (Note 7)	8,536	**10,272**	**85,458**
Retirement and severance benefits (Note 12)	4,043	**4,083**	**33,968**
Other long-term liabilities (Notes 13 and 15)	43,259	**40,502**	**336,955**
Minority interests	23,395	**24,773**	**206,098**
Contingencies (Note 9)			
SHAREHOLDERS' EQUITY (Note 2):			
Common stock			
Authorized—1,700,000,000 shares;			
Issued—631,705,087 shares	51,887	**51,887**	**431,672**
Capital surplus			
Additional paid-in capital	34,092	**34,092**	**283,627**
Retained earnings	95,224	**93,568**	**778,436**
Revaluation reserve for land (Note 7)	12,067	**15,528**	**129,185**
Net unrealized gains (losses) on securities	2,060	**(658)**	**(5,474)**
Foreign currency translation adjustments	(508)	**(746)**	**(6,206)**
Less treasury stock, at cost (Note 15)	(519)	**(76)**	**(632)**
Total shareholders' equity	194,303	**193,595**	**1,610,608**
Total	¥1,242,171	**¥1,246,730**	**$10,372,130**

CONSOLIDATED STATEMENTS OF OPERATIONS

COSMO OIL COMPANY, LIMITED and Its CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2003
NET SALES (Note 14)	¥1,845,842	¥1,813,838	¥1,902,768	$15,830,017
COST OF SALES	1,664,757	1,659,438	1,754,853	14,599,443
Gross profit	181,085	154,400	147,915	1,230,574
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	144,503	132,343	123,748	1,029,517
Operating income (Note 14)	36,582	22,057	24,167	201,057
OTHER INCOME (EXPENSES):				
Interest and dividend income	3,445	3,192	1,906	15,857
Interest expenses (Note 6)	(18,692)	(14,220)	(12,928)	(107,554)
Foreign currency exchange gain, net	1,347	2,373	426	3,544
Net gain (loss) on sale and disposal of property, plant and equipment	7,024	661	(1,315)	(10,940)
Equity in earnings of affiliates	555	268	973	8,095
Write-down of marketable securities and investments in securities	(2,536)	(15,484)	(4,587)	(38,161)
Gain on contribution of securities to retirement benefit trust	—	—	1,120	9,318
Gain on sale of investments in securities	376	3,392	246	2,047
Loss on sale of investments in securities	(6,044)	(2,763)	(102)	(849)
Other, net	403	(1,357)	3,060	25,456
	(14,122)	(23,938)	(11,201)	(93,187)
Income (loss) before income taxes and minority interests	22,460	(1,881)	12,966	107,870
INCOME TAXES:				
Current	8,245	7,122	6,981	58,078
Deferred (Note 13)	4,430	(6,262)	1,139	9,476
	12,675	860	8,120	67,554
Income (loss) before minority interests	9,785	(2,741)	4,846	40,316
MINORITY INTERESTS	(1,111)	(2,449)	(1,420)	(11,814)
NET INCOME (LOSS)	¥ 8,674	¥ (5,190)	¥ 3,426	$ 28,502

	Yen			U.S. dollars (Note 1)
AMOUNTS PER SHARE:				
Net income—Basic (Note 2)	¥ 13.81	¥ (8.24)	¥ 5.42	$ 0.05
Net income—Diluted (Note 2)	15.53	—	—	—
Cash dividends (Note 16)	6.00	6.00	6.00	0.05

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

COSMO OIL COMPANY, LIMITED and Its CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2001, 2002 and 2003

	Number of shares of common stock (Thousands)	Millions of yen						
		Common stock	Additional paid-in capital	Retained earnings	Revaluation reserve for land	Net unrealized gains (losses) on securities	Foreign currency translation adjustments	Treasury stock, at cost
BALANCE AT MARCH 31, 2000	631,705	¥51,887	¥34,092	¥94,883	¥ —	¥ —	¥ —	¥(476)
Net income for the year	—	—	—	8,674	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(693)	—
Cash dividends paid	—	—	—	(3,779)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(8)	—	—	—	—
Cumulative effect of adopting deferred income tax accounting	—	—	—	(1,982)	—	—	—	—
Decrease resulting from increase in consolidated subsidiaries	—	—	—	(30)	—	—	—	(106)
Decrease resulting from increase in affiliates on equity method	—	—	—	(522)	—	—	—	—
Decrease resulting from mergers	—	—	—	(4,388)	—	—	—	—
Sales of treasury stock, net	—	—	—	—	—	—	—	221
BALANCE AT MARCH 31, 2001	631,705	51,887	34,092	92,848	—	—	(693)	(361)
Net loss for the year	—	—	—	(5,190)	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	185	—
Cash dividends paid	—	—	—	(3,774)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(9)	—	—	—	—
Increase resulting from increase in consolidated subsidiaries	—	—	—	1,186	—	—	—	(263)
Increase due to adjustment to land as a result of revaluation of land (Note 7)	—	—	—	10,476	12,067	—	—	—
Decrease resulting from mergers	—	—	—	(313)	—	—	—	—
Adoption of new accounting standard for financial instruments	—	—	—	—	—	2,060	—	—
Sales of treasury stock, net	—	—	—	—	—	—	—	105
BALANCE AT MARCH 31, 2002	631,705	51,887	34,092	95,224	12,067	2,060	(508)	(519)
Net income for the year	**—**	**—**	**—**	**3,426**	**—**	**—**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**(238)**	**—**
Cash dividends paid	**—**	**—**	**—**	**(3,777)**	**—**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(12)**	**—**	**—**	**—**	**—**
Increase resulting from increase in consolidated subsidiaries	**—**	**—**	**—**	**202**	**—**	**—**	**—**	**—**
Increase resulting from increase in affiliates on equity method	**—**	**—**	**—**	**1,696**	**—**	**—**	**—**	**—**
Increase due to adjustment to land as a result of revaluation of land (Note 7)	**—**	**—**	**—**	**(3,116)**	**3,116**	**—**	**—**	**—**
Changes in effective tax rate	**—**	**—**	**—**	**—**	**345**	**—**	**—**	**—**
Increase resulting from mergers	**—**	**—**	**—**	**0**	**—**	**—**	**—**	**—**
Decrease due to revaluation of available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**(2,718)**	**—**	**—**
Loss on retirement of treasury stock	**—**	**—**	**—**	**(75)**	**—**	**—**	**—**	**—**
Sales of treasury stock, net	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**443**
BALANCE AT MARCH 31, 2003	**631,705**	**¥51,887**	**¥34,092**	**¥93,568**	**¥15,528**	**¥ (658)**	**¥(746)**	**¥ (76)**

	Thousands of U.S. dollars (Note 1)						
	Common stock	Additional paid-in capital	Retained earnings	Revaluation reserve for land	Net unrealized gains (losses) on securities	Foreign currency translation adjustments	Treasury stock, at cost
BALANCE AT MARCH 31, 2002	$431,672	$283,627	$792,213	$100,391	$17,138	$(4,226)	$(4,318)
Net income for the year	**—**	**—**	**28,502**	**—**	**—**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**(1,980)**	**—**
Cash dividends paid	**—**	**—**	**(31,423)**	**—**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**(100)**	**—**	**—**	**—**	**—**
Increase resulting from increase in consolidated subsidiaries	**—**	**—**	**1,681**	**—**	**—**	**—**	**—**
Increase resulting from increase in affiliates on equity method	**—**	**—**	**14,110**	**—**	**—**	**—**	**—**
Increase due to adjustment to land as a result of revaluation of land (Note 7)	**—**	**—**	**(25,923)**	**25,923**	**—**	**—**	**—**
Changes in effective tax rate	**—**	**—**	**—**	**2,871**	**—**	**—**	**—**
Increase resulting from mergers	**—**	**—**	**0**	**—**	**—**	**—**	**—**
Decrease due to revaluation of available-for-sale securities	**—**	**—**	**—**	**—**	**(22,612)**	**—**	**—**
Loss on retirement of treasury stock	**—**	**—**	**(624)**	**—**	**—**	**—**	**—**
Sales of treasury stock, net	**—**	**—**	**—**	**—**	**—**	**—**	**3,686**
BALANCE AT MARCH 31, 2003	**$431,672**	**$283,627**	**$778,436**	**$129,185**	**$ (5,474)**	**$(6,206)**	**$ (632)**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

COSMO OIL COMPANY, LIMITED and Its CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2003
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income (loss) before income taxes and minority interests	¥ 22,460	¥ (1,881)	**¥ 12,966**	**$ 107,870**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	24,672	23,492	**22,843**	**190,042**
Amortization of consolidation goodwill	274	138	**147**	**1,223**
Increase (decrease) in allowance for doubtful accounts	(469)	1,658	**(1,841)**	**(15,316)**
Interest and dividend income	(3,445)	(3,192)	**(1,906)**	**(15,857)**
Interest expense	18,692	14,220	**12,928**	**107,554**
Equity in earnings of affiliates	(555)	(268)	**(973)**	**(8,095)**
Net loss (gain) on sale or disposal of property, plant and equipment	(7,024)	(661)	**1,315**	**10,940**
Write-down of marketable securities and investments in securities	2,536	15,484	**4,587**	**38,161**
Gain on contribution of securities to retirement benefit trust	—	—	**(1,120)**	**(9,318)**
Transfer of securities to retirement benefit trust	—	—	**5,218**	**43,411**
Decrease (increase) in notes and accounts receivable	(31,786)	62,189	**(14,568)**	**(121,198)**
Decrease (increase) in inventories	(26,549)	10,622	**(5,791)**	**(48,178)**
Increase (decrease) in notes and accounts payable	44,935	(16,146)	**23,110**	**192,263**
Increase (decrease) in other allowance reserves	(973)	1,480	**(487)**	**(4,052)**
Decrease (increase) in other current assets	(11,987)	1,691	**(33,072)**	**(275,141)**
Increase (decrease) in other current liabilities	49,650	(8,112)	**(34,774)**	**(289,301)**
Other, net	2,585	(3,892)	**2,416**	**20,101**
Subtotal	83,016	96,822	**(9,002)**	**(74,891)**
Interest and dividend received	2,743	1,820	**1,194**	**9,933**
Interest paid	(18,515)	(14,260)	**(12,720)**	**(105,824)**
Income taxes paid	(8,420)	(7,736)	**(6,447)**	**(53,636)**
Net cash provided by (used in) operating activities	58,824	76,646	**(26,975)**	**(224,418)**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for purchases of property, plant and equipment	(19,626)	(21,742)	**(19,626)**	**(163,278)**
Proceeds from sale or disposal of property, plant and equipment	16,551	9,332	**11,062**	**92,030**
Proceeds from sale of settled property	42,000	—	**—**	**—**
Payments for purchases of marketable securities and investments in securities	(7,036)	(14,609)	**(9,113)**	**(75,815)**
Proceeds from sale of marketable securities and investments in securities	7,335	18,704	**6,492**	**54,010**
Payments for intangible assets and deferred charges	(1,923)	(3,885)	**(3,297)**	**(27,429)**
Decrease (increase) in short-term loans receivable	(609)	1,831	**(373)**	**(3,103)**
Payments for long-term loans receivable	(3,916)	(1,952)	**(573)**	**(4,767)**
Proceeds from long-term loans receivable	4,554	2,396	**1,276**	**10,616**
Payments for factoring	—	(3,866)	**—**	**—**
Proceeds from factoring	—	—	**1,571**	**13,070**
Other, net	(9,982)	(153)	**(230)**	**(1,915)**
Net cash provided by (used in) investing activities	27,348	(13,944)	**(12,811)**	**(106,581)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in short-term loans payable	(16,627)	(66,298)	**7,887**	**65,616**
Proceeds from long-term loans payable	4,905	30,430	**63,264**	**526,323**
Repayments for long-term loans payable	(36,947)	(37,462)	**(58,918)**	**(490,166)**
Issuance of bonds	10,000	—	**19,876**	**165,358**
Redemptions of bonds	—	(10,200)	**(16,071)**	**(133,702)**
Redemptions of convertible bonds	(44,584)	(1,332)	**(1,924)**	**(16,007)**
Cash dividends paid	(3,779)	(3,774)	**(3,777)**	**(31,423)**
Other, net	(197)	90	**(210)**	**(1,747)**
Net cash provided by (used in) financing activities	(87,229)	(88,546)	**10,127**	**84,252**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	588	1,078	**(845)**	**(7,030)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	(469)	(24,766)	**(30,504)**	**(253,777)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	96,013	97,788	**74,000**	**615,641**
CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES	1,515	934	**283**	**2,354**
CASH AND CASH EQUIVALENTS FROM MERGERS	729	44	**31**	**258**
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	¥ 97,788	¥ 74,000	**¥ 43,810**	**$ 364,476**

The accompanying notes are an integral part of these statements.

1 SUMMARY OF ACCOUNTING POLICIES

(1) BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Cosmo Oil Company, Limited (the “Company”) and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan (“Japanese GAAP”). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders’ equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to US$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(2) REPORTING ENTITY

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and account balances are eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The excess of cost over net assets of subsidiaries acquired is amortized on a straight-line basis over a period of five years. If the amounts are small, they are expensed as incurred.

Investments in non-consolidated subsidiaries and affiliates of which the Company has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method.

The numbers of consolidated subsidiaries and affiliates accounted for using the equity method at March 31, 2001, 2002 and 2003 were as follows:

	2001	2002	**2003**
Consolidated subsidiaries	20	24	**27**
Subsidiaries using the equity method	12	9	**37**
Affiliates using the equity method	3	3	**5**

Investments in unconsolidated subsidiaries and affiliates not accounted for using the equity method are carried at cost (adjusted for any substantial and non-recoverable decline in value). The effect on consolidated net income (loss) and retained earnings of not applying the equity method for these investments is not material in the aggregate.

(3) STATEMENTS OF CASH FLOWS

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(4) CONVERSION OF FOREIGN CURRENCIES AND TRANSLATION OF STATEMENTS

Receivables and payables denominated in foreign currencies are translated into Japanese yen at each balance sheet date with resulting gains or losses included in the current statements of operation.

Asset and liability, revenue, expense accounts of consolidated overseas subsidiaries are translated into Japanese yen at exchange rate of each balance sheet date of the subsidiaries. The resulting foreign currency translation adjustments are included in foreign currency translation adjustments in shareholders' equity.

(5) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful accounts are provided based on the amount calculated at the actual ratio of bad debt for ordinary receivables, and an amount recognized for uncollectible account for specific doubtful receivables.

(6) MARKETABLE SECURITIES AND INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES, AFFILIATES AND OTHER SECURITIES

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliates that are not consolidated or accounted for using the equity method are stated at cost, as determined by the moving-average method. Available-for-sale securities with fair market values are stated at fair market value with unrealized gains and losses reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using the moving-average method. Other securities with no available fair market value are stated at cost, as determined by the moving-average method.

(7) INVENTORIES

Inventories are stated principally at cost determined by the moving-average method. Effective April 1, 2001, Cosmo Matsuyama Oil Company, Limited, the Company's consolidated subsidiary (hereinafter referred to as Cosmo Matsuyama Oil), changed its inventory costing method for finished products, semi-finished products and materials from the last-in, first-out (LIFO) method to the overall average method as discussed in Note 2.

In-transit inventory is stated at cost determined by the specific identification method.

(8) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant, and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets.

The cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the related accounts and the gain or loss on sale and disposal is credited or charged to income.

Expenditures for new facilities and those that substantially increase the useful lives of existing property, plant, and equipment are capitalized. Maintenance, repair, and minor renewals are expensed as incurred.

(9) RESEARCH AND DEVELOPMENT COSTS

Research and development costs for the improvement of existing skills and technologies or the development of new skills and technologies, including basic research and fundamental development costs, are expensed as incurred.

(10) RETIREMENT AND SEVERANCE BENEFITS AND PENSION COSTS

The Company and its consolidated subsidiaries provided allowance for retirement and severance benefits at the balance sheet date based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The net transition obligation, ¥24,222 million ($201,514 thousand), will be recognized in expenses in equal amounts primarily over five years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses in equal amounts over 10 years, which is the average of the estimated remaining service lives, commencing with the following period.

(11) ALLOWANCE FOR SPECIAL REPAIR WORKS

The Company and its consolidated subsidiaries provide an allowance for special repair works in an amount equal to the estimated cost of periodically required repairs for oil tanks.

(12) RESERVE FOR LOSS ON INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Reserve for loss on investment in unconsolidated subsidiaries and affiliates is provided for based on the review of the investee’s financial condition and operating performance as well as its future recoverability.

Prior to the year ended March 31, 2002, valuation losses accounts were recorded as valuation losses accounts.

The Company adopted new Japanese accounting standards for financial instruments from the year ended March 31, 2002. As a result, valuation losses in relation to investment in unconsolidated subsidiaries and affiliates are recorded as Reserve for loss on investment in unconsolidated subsidiaries and affiliates, and possible loss on investment in unlisted securities is written down. And such write-down of ¥185 million ($1,539 thousand) was directly offset against investments.

(13) FINANCE LEASES

Finance leases except for those leases under which the ownership of the leased assets is considered to be transferred to the lessee are accounted for in the same manner as operating leases.

(14) SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Effective October 1, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earning reserve until the total amount of legal earning reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore the Company is not required to provide legal earnings reserve anymore. The legal earning reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earning reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, it is available for distributions by the resolution of the shareholders' meeting. Legal earning reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code of Japan and is subject to certain covenant regarding convertible bonds (see Note 6).

(15) DERIVATIVE TRANSACTION AND HEDGE ACCOUNTING

The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(16) INCOME TAXES

The Company and its consolidated subsidiaries provide for income taxes payable on basis of current tax liabilities and reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax purpose and those for financial reporting purpose.

(17) REVENUE RECOGNITION

Revenue from sales of finished products is generally recognized when such products are shipped to customers.

Some of its consolidated subsidiaries recognize their construction revenue by using the completed contract method, except for the long-term and large engineering contracts which are more than 1-year term and of which contract amount is more than ¥100 million ($832 thousand). Such long-term and large engineering contracts are recognized by the percentage of completion method.

(18) EARNINGS PER SHARE

Net income per share is computed based upon the weighted-average number of shares of common stock outstanding during the fiscal year.

Diluted net income per share were not disclosed for the year ended March 31, 2002 and 2003, as net income per share, assuming all potential shares were converted, was not diluted for the years.

(19) ALLOWANCE FOR LOSS ON ENGINEERING CONTRACTS

Cosmo Engineering Company, Limited, the Company's consolidated subsidiary (hereinafter referred to as Cosmo Engineering), accrued losses on certain engineering contracts since they are probable and estimable.

As a result, income before income taxes and minority interests decreased by ¥519 million ($4,318 thousand) for the year ended March 31, 2003.

(20) RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2003 presentation.

These changes had no impact on previously reported results of operations or shareholders' equity.

2 CHANGES IN ACCOUNTING POLICIES

(1) ACCOUNTING STANDARD FOR TREASURY STOCK AND REVERSAL OF STATUTORY RESERVES

Effective April 1, 2002 the Company and its domestic subsidiaries adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No.1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on net income of the adoption of the new accounting standard was immaterial.

As a result of adopting this shareholders' equity section in the balance sheets and consolidated statements of shareholders' equity as of March 31, 2002 are presented in conformity with new accounting standard and application of the related revised disclosure requirements.

(2) EARNINGS PER SHARE

Effective April 1, 2002, the Company and its domestic subsidiaries adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002).

Earnings per share for the year ended March 31, 2003 would have been reported as follows, if the previous accounting standard were applied retroactively:

	Yen	U.S. dollars (Note 1)
Net income	**¥ 5.44**	**$ 0.05**

(3) CHANGE OF RECOGNITION OF CONSTRUCTION REVENUE

Effective January 1, 2002, Cosmo Engineering changed its revenue recognition from the completed contract method to the percentage of completion method on the long-term and large engineering contracts which are more than 1-year term and of which contract amount is more than ¥100 million ($832 thousand). The reason for this change is to match revenue against expenses more accurately, by adopting the percentage of completion method, which is more reasonable, in view of the trend of international accounting standard.

As a result of the change, net sales for the year ended March 31, 2003 increased by ¥312 million ($2,596 thousand), and operating income, income before income taxes and minority interests increased by ¥9 million ($75 thousand), respectively.

The effect of the changes in segment information is described in Note 14.

(4) CHANGE OF THE INVENTORY COSTING METHOD

Prior to April 1, 2001, Cosmo Matsuyama oil computed costs of inventories including finished products, semi-finished products, and raw materials using original costs by the last-in, first-out (LIFO) method. However, as the Company changed the method of costing inventories, March 31,2001, therefore, effective April 1, 2001, Cosmo Matsuyama Oil adopted the method of costing inventories under which the inventories are stated at cost determined by aggregate average method.

As a result of the change, inventories at March 31, 2002, and operating income decreased by ¥81 million ($674 thousand), and loss before income taxes and minority interests increased by the same amount. The effect of the change on segment information is described in Note 14.

Prior to April 1, 2000, the Company computed costs of inventories including finished products, semi-finished products, and raw materials, using original costs based on the last-in, first-out (LIFO) method. However, as the Company’s operating environment has recently featured large fluctuation include oil prices, the gap between the book value of inventories and the current market value of inventories tends to become larger. In addition, there has been the progressive shift to the use of current market price-based accounting, and the introduction of new standards for financial instruments, from the fiscal year. Therefore, effective April 1, 2000, the Company adopted the method of costing inventories using original costs based on the overall average price method.

As a result of the change, the balance of inventories at March 31, 2001, increased by ¥13,566 million ($112,862 thousand), and operating income and income before income taxes and minority interests increased by the same amounts.

(5) CHANGE OF ALLOWANCE FOR SPECIAL REPAIR WORKS

Effective April 1, 2001, Cosmo Matsuyama Oil provided an allowance for special repair works in an amount equal to the estimated cost of periodically required repairs for machinery and equipment of oil refineries.

Prior to April 1, 2001, only Cosmo Matsuyama Oil provided such allowance for oil tanks. The reason for this change is to match revenue against expenses more accurately, as the term of periodically required repairs for machinery and equipment of oil refineries has changed longer.

As a result of the change, the balance of allowance for special repair works at March 31, 2002, increased by ¥237 million ($1,972 thousand), and loss before income taxes and minority interests increased by ¥213 million ($1,772 thousand). Operating income decreased by ¥213 million ($1,772 thousand). The effect of the change on segment information is described in Note 14.

3 EFFECT OF BANK HOLIDAY ON MARCH 31, 2002

As financial institutions in Japan were closed on March 31, 2002, amounts that would normally be settled on March 31, 2002 were collected or paid on the following business day, April 1, 2002. The effects of the settlements on April 1 instead of March 31 included the following:

Notes and accounts receivable, trade
Increased by approximately ¥1,106 million
Notes and accounts payable, trade
Increased by approximately ¥80 million

4 INVENTORIES

Inventories at March 31, 2002 and 2003 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Finished products	¥ 44,907	¥ 49,140	$ 408,819
Semi-finished products	26,355	29,620	246,423
Materials—crude oil, auxiliary materials, etc.	40,384	51,583	429,143
Supplies—spare parts, etc.	4,727	5,281	43,935
In-transit crude oil and oil products	57,980	43,807	364,451
Land for sale	912	1,102	9,168
Others	4,405	4,928	40,998
Total	¥ 179,670	¥ 185,461	$ 1,542,937

5 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

CASH DEPOSITS, AND CASH EQUIVALENTS

Reconciliation between cash and deposits in the consolidated balance sheets cash and cash equivalents in the consolidated statements of cash flows at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Cash and deposits	¥ 65,310	¥ 36,185	$ 301,040
ADD:			
Marketable securities	11,625	7,425	61,772
Other current assets	—	2,054	17,089
LESS:			
Deposits with maturities exceeding three months	720	221	1,839
Bonds with maturities exceeding three months included in marketable securities above	2,215	1,633	13,586
Cash and cash equivalents	¥ 74,000	¥ 43,810	$ 364,476

6 SHORT-TERM LOANS AND LONG-TERM DEBT

Included in short-term loans at March 31, 2002 and 2003 were import bills payable and import financing bills payable to banks aggregating ¥1,917 million and ¥3,284 million ($27,321 thousand), respectively. These bills bear interest ranging from 2.24% to 5.25% and from 1.72% to 2.43% per annum, respectively, and mature in various days, mainly 45 days after issuance. The remaining short-term loans from banks of ¥156,128 million and ¥165,962 million ($1,380,715 thousand), as of March 31, 2002 and 2003, bear interest ranging from 0.10% to 2.92% and from 0.20% to 2.28% per annum, respectively. The banks have basic agreements with the Company and its consolidated subsidiaries to the effect that, with respect to all present or future loans with the banks, the Company and its consolidated subsidiaries shall provide collateral (including sums on deposit with such banks) or guarantees immediately upon request from the banks and that any collateral furnished, pursuant to such agreement or otherwise, will be applicable to all indebtedness to the banks.

Short-term loans and current maturities of long-term debts at March 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	**2003**	**2003**
Short-term loans	¥ 158,045	**¥ 165,962**	**$ 1,380,715**
Current maturities of long-term debt	57,331	**82,405**	**685,566**
Total	¥ 215,376	**¥ 248,367**	**$ 2,066,281**

Long-term debts at March 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	**2003**	**2003**
Loans from banks, insurance companies and other financial institutions, secured, with interest at 1.0% - 7.5%, due serially through 2015	¥ 272,400	**¥ 276,746**	**$ 2,302,378**
1.1% unsecured convertible yen bonds due in 2005	18,508	**16,541**	**137,612**
2.8% unsecured straight yen bonds due in 2003	14,700	**14,600**	**121,464**
3.3% unsecured straight yen bonds due in 2007	10,000	**9,500**	**79,035**
3.15% unsecured straight yen bonds due in 2007	10,000	**7,800**	**64,892**
2.30% unsecured straight yen bonds due in 2002	10,000	**—**	**—**
2.72% unsecured straight yen bonds due in 2003	2,000	**2,000**	**16,639**
3.08% unsecured straight yen bonds due in 2004	4,500	**4,000**	**33,278**
3.50% unsecured straight yen bonds due in 2005	4,200	**4,200**	**34,942**
3.10% unsecured straight yen bonds due in 2005	5,000	**4,700**	**39,101**
2.34% unsecured straight yen bonds due in 2003	4,500	**4,500**	**37,438**
2.70% unsecured straight yen bonds due in 2004	4,700	**4,400**	**36,606**
3.00% unsecured straight yen bonds due in 2006	4,800	**4,500**	**37,438**
2.45% unsecured straight yen bonds due in 2004	5,000	**4,700**	**39,101**
2.83% unsecured straight yen bonds due in 2005	4,700	**4,700**	**39,101**
3.05% unsecured straight yen bonds due in 2006	4,100	**3,800**	**31,614**
2.86% unsecured straight yen bonds due in 2005	3,300	**2,600**	**21,631**
2.50% unsecured straight yen bonds due in 2004	5,000	**4,600**	**38,270**
2.84% unsecured straight yen bonds due in 2005	3,200	**2,800**	**23,295**
1.34% unsecured straight yen bonds due in 2007	—	**10,000**	**83,195**
1.60% unsecured straight yen bonds due in 2008	—	**10,000**	**83,195**
	390,608	**396,687**	**3,300,225**
Less current maturities	(57,331)	**(82,405)**	**(685,566)**
Total	¥ 333,277	**¥ 314,282**	**$ 2,614,659**

The aggregate annual maturities of long-term debts at March 31, 2003 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2004	¥ 82,405	$ 685,566
2005	112,859	938,927
2006	66,757	555,383
2007	39,224	326,323
2008 and thereafter	95,442	794,026
Total	¥ 396,687	$ 3,300,225

The 1.1% unsecured convertible yen bonds in the original principal amount of ¥30,000 million was issued in March 1994. The bonds are subject to conversion currently at ¥877 ($7.30) for one share of the common stock of the Company from April 1, 1994 to March 30, 2005. At March 31, 2003, 18,861 thousand additional shares of common stock of the Company would have been issued upon full conversion at the current conversion price. The bonds may be redeemed, at the option of the Company, beginning April 1, 2000, in whole or in part at prices that range from 104% to 100% of the principal amount plus interest accrued. The Company redeemed a part of the bonds from the market in this fiscal year.

So long as the 1.1% bonds are outstanding, the cumulative amount of payments of cash dividends must not exceed ¥7,300 million ($60,732 thousand) plus the Company's cumulative net income for the fiscal years following March 31, 1994.

7 REVALUATION RESERVE FOR LAND

Pursuant to Article 2, Paragraphs 4 and 5 of the Enforcement Ordinance for the Law concerning Revaluation Reserve for Land (the "Law"), enacted on March 31, 1998, and partial revision to the Law on March 31, 2001, the Company and two of its consolidated subsidiaries recorded their own lands used for business at fair value as of March 31, 2002 and the related unrealized gain net of income taxes was credited to "Revaluation reserve for land" in the equity section, and the applicable income tax portion was reported as "Deferred taxes for revaluation reserve for land" in liabilities. According to the Law, the Company and two of its consolidated subsidiaries are not permitted to revalue the land at any time in the future, even in case the fair value of the land declines.

Book value before and after revaluation as of March 31, 2002 and difference between the fair value and carrying amount of the revalued land as of March 31, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	**2003**	**2003**
Book value before revaluation	¥ 314,634	**¥ —**	**$ —**
Book value after revaluation	335,225	**—**	**—**
Difference between the fair value and carrying amount of the revalued land	—	**(24,638)**	**(204,975)**

8 LEASE TRANSACTIONS

A. LESSEE LEASES

Lease payments of finance leases under which the ownership of the leased assets is not transferred to lessees for the years ended March 31, 2001, 2002 and 2003 were ¥5,012 million, ¥4,208 million and ¥4,391 million ($36,531 thousand), respectively.

Total lease obligation as of March 31, 2002 and 2003 with interest portion under such leases were ¥10,041 million and ¥10,690 million ($88,935 thousand), including ¥3,763 million and ¥3,792 million ($31,547 thousand) due within one year. Included in the total lease obligation as of March 31, 2003 is obligation for sub-lease payment of ¥5,873 million ($48,860 thousand).

Equivalent of acquisition cost, accumulated depreciation, and net book value of leased properties for the years ended March 31, 2002 and 2003, were as follows:

	Millions of yen		
Year ended March 31, 2002	Machinery & equipment	Other	Total
Acquisition cost equivalent	¥ 3,218	¥ 6,929	¥ 10,147
Accumulated depreciation equivalent	(1,530)	(4,336)	(5,866)
Net book value equivalent	¥ 1,688	¥ 2,593	¥ 4,281

	Millions of yen			Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2003	Machinery & equipment	Other	Total	Machinery & equipment	Other	Total
Acquisition cost equivalent	**¥ 4,026**	**¥ 7,341**	**¥ 11,367**	**$ 33,494**	**$ 61,073**	**$ 94,567**
Accumulated depreciation equivalent	**(2,074)**	**(4,476)**	**(6,550)**	**(17,255)**	**(37,238)**	**(54,493)**
Net book value equivalent	**¥ 1,952**	**¥ 2,865**	**¥ 4,817**	**$ 16,239**	**$ 23,835**	**$ 40,074**

B. LESSOR LEASES

Rental income from finance leases under which the ownership of the leased assets is not transferred to lessees for the year ended March 31, 2001, 2002 and 2003 were ¥3,201 million, ¥2,503 million and ¥2,502 million ($20,815 thousand).

Total lease obligation as of March 31, 2002 and 2003, inclusive of interest income under such leases, were ¥6,069 million and ¥6,184 million ($51,448 thousand), including ¥2,195 million and ¥2,181 million ($18,145 thousand) due within one year. Included in the total lease obligation as of March 31, 2003 is obligation for sub-lease payment of ¥6,160 million ($51,248 thousand).

Acquisition cost, accumulated depreciation and book value of leased properties for the years ended March 31, 2002 and 2003, were as follows:

	Millions of yen		
Year ended March 31, 2002	Machinery & equipment	Other	Total
Acquisition cost	¥ 27	¥ 636	¥ 663
Accumulated depreciation	(25)	(604)	(629)
Net book value	¥ 2	¥ 32	¥ 34

	Millions of yen			Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2003	Machinery & equipment	Other	Total	Machinery & equipment	Other	Total
Acquisition cost	**¥ 7**	**¥ 467**	**¥ 474**	**$ 58**	**$ 3,885**	**$ 3,943**
Accumulated depreciation	**(7)**	**(444)**	**(451)**	**(58)**	**(3,694)**	**(3,752)**
Net book value	**¥ 0**	**¥ 23**	**¥ 23**	**$ 0**	**$ 191**	**$ 191**

9 CONTINGENCIES

(a) Contingent liabilities for notes receivable discounted with banks with recourse at March 31, 2003 were ¥330 million ($2,745 thousand).
(b) Contingencies for loans guaranteed, by the Company and its consolidated subsidiaries, mainly for unconsolidated subsidiaries, affiliates, employees of the Company and its consolidated subsidiaries and its sales agents at March 31, 2003 were ¥16,046 million ($133,494 thousand).

10 SECURITIES

The following tables summarize acquisition costs, book value, and fair value of securities as of March 31, 2002 and 2003:

As of March 31, 2002

(a) Held-to-maturity debt securities
Bonds with fair value

			Millions of yen
	Book value	Fair value	Difference
Fair value exceeding book value	¥ 471	¥ 474	¥ 3
Fair value not exceeding book value	273	257	(16)
Total	¥ 744	¥ 731	¥ (13)

(b) Available-for-sale securities with fair values

			Millions of yen
	Acquisition cost	Book value	Difference
BOOK VALUE EXCEEDING ACQUISITION COST:			
Equity securities	¥ 14,121	¥ 18,179	¥ 4,058
Bonds	2,130	2,166	36
Other	1,391	1,409	18
Subtotal	¥ 17,642	¥ 21,754	¥ 4,112
BOOK VALUE NOT EXCEEDING ACQUISITION COST:			
Equity securities	¥ 9,297	¥ 7,799	¥ (1,498)
Bonds	1,795	1,773	(22)
Other	500	488	(12)
Subtotal	¥ 11,592	¥ 10,060	¥ (1,532)
Total	¥ 29,234	¥ 31,814	¥ 2,580

(c) Available-for-sale securities sold during year ended March 31, 2002

			Millions of yen
	Amount of sales	Gain	Loss
	¥ 16,110	¥ 3,306	¥ 2,708

The following table summarizes book values of securities without fair value

	Millions of yen
	Book value
(a) Held-to-maturity debt securities	
Non-listed bonds	¥ 3,350
(b) Shares issued by unconsolidated subsidiaries and affiliates	
Non-listed securities	¥ 22,514
(c) Available-for-sale securities	
Money management fund	¥ 4,947
Free financial fund	1,502
Mutual fund	2,472
Non-listed securities	13,617
Total	¥ 22,538

Schedule of redemption for available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds and municipal bonds	¥ 577	¥ 3,409	¥ 15	¥ 1
Corporate bonds	535	495	—	3,020
Total	¥ 1,112	¥ 3,904	¥ 15	¥ 3,021

As of March 31, 2003

(a) Held-to-maturity debt securities

Bonds with fair value

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Fair value exceeding book value	¥ 630	¥ 640	¥ 10	$ 5,241	$ 5,324	$ 83
Fair value not exceeding book value	312	311	(1)	2,596	2,588	(8)
Total	¥ 942	¥ 951	¥ 9	$ 7,837	$ 7,912	$ 75

(b) Available-for-sale securities with fair value

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
BOOK VALUE EXCEEDING ACQUISITION COST:						
Debt securities	¥ 940	¥ 1,447	¥ 507	$ 7,820	$ 12,038	$ 4,218
Bonds	4,157	4,244	87	34,584	35,308	724
Subtotal	5,097	5,691	594	42,404	47,346	4,942
BOOK VALUE NOT EXCEEDING ACQUISITION COST:						
Debt securities	13,436	11,375	(2,061)	111,780	94,634	(17,146)
Bonds	1,733	1,726	(7)	14,418	14,359	(59)
Other	7	6	(1)	58	50	(8)
Subtotal	15,176	13,107	(2,069)	126,256	109,043	(17,213)
Total	¥20,273	¥18,798	¥(1,475)	$168,660	$156,389	$(12,271)

(c) Available-for-sale securities sold during year ended March 31, 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Amount of sales	Gain	Loss	Amount of sales	Gain	Loss
	¥ 654	¥ 246	¥ 101	$ 5,441	$ 2,047	$ 840

The following table summarizes book values of securities without fair value:

	Millions of yen Book value	Thousands of U.S. dollars (Note 1) Book value
(a) Held-to-maturity debt securities		
Non-listed bonds	¥ 70	$ 582
(b) Shares issued by unconsolidated subsidiaries and affiliates		
Non-listed securities	¥ 25,734	$ 214,093
(c) Available-for-sale securities		
Money management fund	¥ 1,766	$ 14,692
Free financial fund	3,025	25,166
Non-listed securities	18,990	157,987
Total	¥ 23,781	$ 197,845

Schedule of redemption for available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds and municipal bonds	¥ 624	¥ 3,073	¥ 14	¥ —
Corporate bonds	2,232	959	—	—
Total	¥ 2,856	¥ 4,032	¥ 14	¥ —

	Thousands of U.S. dollars (Note 1)			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds and municipal bonds	$ 5,191	$ 25,566	$ 116	$ —
Corporate bonds	18,569	7,978	—	—
Total	$ 23,760	$ 33,544	$ 116	$ —

11 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

(1) NATURE AND OBJECTIVE OF DERIVATIVE TRANSACTIONS

The Company uses foreign currency forward contracts and currency option contracts to hedge risks due to the effect of currency exchange rate fluctuations on U.S.-dollar-denominated imports of crude oil and petroleum products. The Company uses interest rate swap contracts to exchange floating-rate payment obligations for fixed-rate payment obligations. The Company also uses crude oil and petroleum product swap contracts and commodity forward contracts to hedge risks stemming from commodity price fluctuations. If these derivative transactions are used as hedges and meet certain hedging criteria, the Company undertakes hedge accounting for the derivatives.

A. Hedging instruments and hedged items

Hedging instruments	Hedged items
Interest rate swaps	Borrowings
Crude oil and petroleum forward contracts	Purchases and sales of crude oil and petroleum products

B. Hedge policy

In accordance with internal rules that determine derivative transaction-related authority levels and transaction value limits, hedging activities are undertaken within specified limits to hedge fluctuation risks of interest rate and commodity prices.

C. Method of evaluating hedge effectiveness

The Company evaluates hedge effectiveness semi-annually by comparing cumulative changes in cash flows from or changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments. The evaluation of hedge effectiveness is not considered necessary for certain interest rate swaps, which are used to hedge and meet certain hedging criteria.

(2) OPERATING POLICY OF DERIVATIVE TRANSACTIONS

In accordance with internal rules that determine derivative transaction-related authority levels and transaction value limits, fluctuation risks of foreign currency exchange rate, interest rate and commodity prices are hedged within a fixed range. Each derivative transaction is based on actual business transactions, and the Company has a policy of not executing speculative derivative transactions.

(3) RISKS RELATED TO DERIVATIVE TRANSACTIONS

The Company faces exchange rate fluctuation risks related to foreign currency forward contracts and currency option contracts, and also faces interest rate fluctuation risks related to interest rate swaps associated with interest rate-related transactions. In addition, the Company faces price fluctuation risks and exchange rate fluctuation risks related to crude oil and petroleum product swap transactions. In all these types of transactions, the Company deals with large banks, trading companies and oil companies therefore, considers that there is insignificant credit risk associated with these derivative transactions.

(4) MANAGEMENT OF RISKS RELATED TO DERIVATIVE TRANSACTIONS

Currency and interest-related derivative transactions are implemented and controlled by the Finance Department in accordance with internally authorized rules. The General Manager of the Finance Department reports the results of transactions to, and obtains authorization of basic transaction policy from, the meeting of the Executive Committee on a quarterly basis.

Regarding commodity-related derivative transactions, the Demand & Supply Coordination Department, International Petroleum Department, Industrial Fuel Department, and the second Corporate Planning Department consult with each other and obtain approval of the annual basic transaction policy from the meeting of the Executive Committee, and implement and control transactions in accordance with internally authorized rules. Regarding control, the Demand & Supply Coordination Department, International Department, and Industrial Fuel Department control derivative transactions on a single-department basis and Corporate Planning Department 2 controls derivative transactions on a Companywide basis. General managers of the Demand & Supply Coordination Department, International Department, and Industrial Fuel Department report the results of transactions to the meeting of the Executive Committee semi-annually.

(5) OTHER

The contract amount, notional amounts, and other figures shown in the items related to derivative transaction market prices do not necessarily indicate the magnitude of market risk associated with derivative transactions.

The following tables summarize market value information as of March 31, 2002 and 2003 of derivative transactions for which hedge accounting has not been applied:

(1) Currency related

Year ended March 31, 2002	Due within 1 year	Due after 1 year	Contract amounts Total	Market value	Millions of yen Unrealized gains
Forward exchange contracts					
Buy					
U.S. dollars	¥ 66,642	¥ —	¥ 66,642	¥ 67,425	¥ 783
Currency option contracts					
Buy					
Call U.S. dollars	665	—	665	7	1

Year ended March 31, 2003	Due within 1 year	Due after 1 year	Contract amounts Total	Market value	Millions of yen Unrealized gains
Forward exchange contracts					
Buy					
U.S. dollars	**¥ 50,691**	**¥ —**	**¥ 50,691**	**¥ 51,445**	**¥ 754**
Currency option contracts					
Buy					
Call U.S. dollars	**6,611**	**—**	**6,611**	**92**	**33**

	Due within 1 year	Due after 1 year	Contract amounts Total	Market value	Thousands of U.S. dollars (Note 1) Unrealized gains
Forward exchange contracts					
Buy					
U.S. dollars	**$ 421,722**	**$ —**	**$ 421,722**	**$ 427,995**	**$ 6,273**
Currency option contracts					
Buy					
Call U.S. dollars	**55,000**	**—**	**55,000**	**765**	**275**

(2) Commodity related

Year ended March 31, 2002	Due within 1 year	Due after 1 year	Contract amounts Total	Market value	Millions of yen Unrealized gains (losses)
Forward contracts of crude oil					
Sell	¥ 303	¥ —	¥ 303	¥ 351	¥ (48)
Buy	161	—	161	172	14

Year ended March 31, 2003	Due within 1 year	Due after 1 year	Contract amounts Total	Market value	Millions of yen Unrealized gains (losses)
Swap transaction of petroleum products					
Receive-fixed;					
pay-variable	**¥ 10**	**¥ —**	**¥ 10**	**¥ (1)**	**¥ (1)**
Receive-variable;					
pay-fixed	**10**	**—**	**10**	**45**	**45**

	Contract amounts			Market value	Unrealized gains (losses)
	Due within 1 year	Due after 1 year	Total		
				Thousands of U.S. dollars (Note 1)	
Swap transaction of petroleum products					
Receive-fixed;					
pay-variable	**$ 83**	**$ —**	**$ 83**	**$ (8)**	**$ (8)**
Receive-variable;					
pay-fixed	**83**	**—**	**83**	**374**	**374**

12 RETIREMENT AND SEVERANCE BENEFITS

The Company and its domestic consolidated subsidiaries provide unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The liabilities for retirement and severance benefits included in the liability section of the consolidated balance sheets as of March 31, 2002 and 2003 consist of the following:

March 31, 2002	Millions of yen
Projected benefit obligation	¥ (91,670)
Pension assets	59,677
Unrecognized net transition obligation	14,219
Unrecognized actuarial differences	15,987
Less prepaid pension costs	(2,256)
Liabilities for retirement and severance benefits	¥ (4,043)

March 31, 2003	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligation	**¥ (88,979)**	**$ (740,258)**
Pension assets	**60,204**	**500,865**
Unrecognized net transition obligation	**9,479**	**78,860**
Unrecognized actuarial differences	**19,104**	**158,935**
Less prepaid pension costs	**(3,891)**	**(32,370)**
Liabilities for retirement and severance benefits	**¥ (4,083)**	**$ (33,968)**

Included in the consolidated statements of operation for the years ended March 31, 2001, 2002 and 2003 are retirement and severance benefit expenses comprised of the following:

March 31, 2001	Millions of yen
Service costs	¥ 3,105
Interest cost on projected benefit obligation	2,614
Expected return on plan assets	(1,802)
Amortization of net transition obligation	4,739
Retirement and severance benefit expenses	¥ 8,656

March 31, 2002	Millions of yen
Service costs	¥ 3,192
Interest cost on projected benefit obligation	2,076
Expected return on plan assets	(1,916)
Amortization of net transition obligation	5,079
Amortization of net actuarial loss	1,195
Retirement and severance benefit expenses	¥ 9,626

March 31, 2003	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs	**¥ 2,846**	**$ 23,677**
Interest cost on projected benefit obligation	**2,137**	**17,779**
Expected return on plan assets	**(2,004)**	**(16,672)**
Amortization of net transition obligation	**4,739**	**39,426**
Amortization of net actuarial loss	**1,718**	**14,292**
Retirement and severance benefit expenses	**¥ 9,436**	**$ 78,502**

Actuarial assumptions used in computation of retirement and severance liabilities were as follows:

a. Attribution of expected benefit obligation	Straight-line method
b. Discount rate	2.5%
c. Expected rate of return on plan assets	Primarily 3.5%
d. Amortization of net transition obligation	5 years
e. Amortization of actuarial gains/losses	Primarily 10 years (will be amortized by the straight-line method starting from the next year based on periods less than the estimated average remaining service period of employees.)

13 INCOME TAXES

The statutory income tax rate used for calculation of deferred tax assets and liabilities was 40.87% for the year ended March 31, 2002. Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the aggregate statutory income tax rates of 40.87% and 39.54% for current items and non-current items, respectively, at March 31, 2003.

As a result of the change in the statutory income tax rates, deferred income tax assets and liabilities decreased by ¥38 million ($316 thousand) and ¥175 million ($1,456 thousand), respectively, provision for deferred income taxes decreased by ¥160 million ($1,331 thousand) and unrealized gains (losses) on securities deceased by ¥23 million ($191 thousand) compared with what would have been recorded under the previous local tax law. Also, deferred tax for revaluation reserve for land decreased by ¥345 million ($2,870 thousand) and revaluation reserve for land increased by the same amount.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2003:

Year ended March 31, 2003	
Statutory income tax rate	**40.87%**
INCREASE (DECREASE) IN TAXES RESULTING FROM:	
Non-Japanese taxes	**12.31**
Non-taxable dividend income	**6.54**
Non-deductible expenses	**6.24**
Effect on change in enacted tax rate	**(1.24)**
Other	**(2.10)**
Effective income tax rate	**62.62%**

The significant differences between the statutory income tax rate and the Company's effective income tax rate was not disclosed for the year ended March 31, 2002, as loss before income tax was recorded.

Significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2002 and 2003 are as follows:

Year ended March 31, 2002	Millions of yen
CURRENT DEFERRED TAX ASSETS:	
Excess bonuses accrued	¥ 1,331
Accounts receivable	1,079
Unrealized gains	398
Other	698
Total current deferred tax assets	3,506
Valuation allowance	(204)
Total current deferred tax assets, net of valuation allowance	3,302
Account offset against deferred tax liabilities	(78)
Net current deferred tax assets	¥ 3,224
CURRENT DEFERRED TAX LIABILITIES:	
Allowance for doubtful accounts	¥ (54)
Other	(24)
Total current deferred tax liabilities	(78)
Account offset against deferred tax assets	78
Net current deferred tax liabilities	¥ 0
NON-CURRENT DEFERRED TAX ASSETS:	
Marketable securities	¥ 4,007
Net operating loss carry forward	3,049
Depreciation	2,287
Unrealized gains	1,666
Allowance for doubtful accounts	1,194
Golf-club membership	1,177
Costs for retirement and severance benefits	804
Other	1,698
Total non-current deferred tax assets	15,882
Valuation allowance	(1,923)
Total non-current deferred tax assets, net of valuation allowance	13,959
Account offset against deferred tax liabilities	(10,867)
Net non-current deferred tax assets	¥ 3,092

NON-CURRENT DEFERRED TAX LIABILITIES:		
Reserve for deferred gains on sales of fixed assets for tax purposes		¥(14,563)
Non-Japanese taxes		(5,790)
Unrealized gain on marketable securities		(1,077)
Retirement and severance benefits		(922)
Reserve for losses on overseas investments		(841)
Special depreciation		(257)
Other		(49)
Total non-current deferred tax liabilities		(23,499)
Account offset against deferred tax assets		10,867
Net non-current deferred tax liabilities		¥(12,632)

Year ended March 31, 2003	Millions of yen	Thousands of U.S. dollars (Note 1)
CURRENT DEFERRED TAX ASSETS:		
Excess bonuses accrued	**¥ 1,571**	**$ 13,070**
Accounts receivable	**995**	**8,278**
Other	**799**	**6,647**
Total current deferred tax assets	**3,365**	**27,995**
Valuation allowance	**(9)**	**(75)**
Total current deferred tax assets, net of valuation allowance	**3,356**	**27,920**
Account offset against deferred tax liabilities	**(74)**	**(616)**
Net current deferred tax assets	**¥ 3,282**	**$ 27,304**
CURRENT DEFERRED TAX LIABILITIES:		
Allowance for doubtful accounts	**¥ (51)**	**$ (424)**
Other	**(24)**	**(200)**
Total current deferred tax liabilities	**(75)**	**(624)**
Account offset against deferred tax assets	**74**	**616**
Net current deferred tax liabilities	**¥ (1)**	**$ (8)**
NON-CURRENT DEFERRED TAX ASSETS:		
Marketable securities	**¥ 5,216**	**$ 43,394**
Depreciation	**2,410**	**20,050**
Unrealized gains	**1,410**	**11,730**
Allowance for special repair works	**1,269**	**10,557**
Net operating loss carry forward	**1,142**	**9,501**
Costs for retirement and severance benefits	**1,110**	**9,235**
Golf-club membership	**1,033**	**8,594**
Allowance for doubtful accounts	**942**	**7,837**
Other	**3,980**	**33,112**
Total non-current deferred tax assets	**18,512**	**154,010**
Valuation allowance	**(1,168)**	**(9,717)**
Total non-current deferred tax assets, net of valuation allowance	**17,344**	**144,293**
Account offset against deferred tax liabilities	**(13,902)**	**(115,658)**
Net non-current deferred tax assets	**¥ 3,442**	**$ 28,636**

NON-CURRENT DEFERRED TAX LIABILITIES:

Reserve for deferred gains on sales of fixed assets for tax purposes	¥(12,630)	$(105,075)
Non-Japanese taxes	(5,673)	(47,196)
Retirement and severance benefits	(1,538)	(12,795)
Reserve for losses on overseas investments	(765)	(6,364)
Special depreciation	(210)	(1,747)
Other	(3,465)	(28,828)
Total non-current deferred tax liabilities	(24,281)	(202,005)
Account offset against deferred tax assets	13,902	115,657
Net non-current deferred tax liabilities	¥(10,379)	$ (86,348)

In addition, deferred tax liability related to land revaluation of ¥8,535 million and ¥10,272 million ($85,458 thousand) were included in the consolidated balance sheets for the years ended March 31, 2002 and 2003, respectively, other than the above mentioned items.

14 SEGMENT INFORMATION

The Company and its consolidated subsidiaries primarily operate in the oil business, importing and refining crude oil to produce and distribute a variety of petroleum products.

For the years ended March 31, 2002 and 2003, product groups summarize business operations of the Company and its consolidated subsidiaries as follows:

Year ended March 31, 2002	Petroleum	Oil Resource Development	Other	Total	Elimination or corporate	Consolidated
						Millions of yen
NET SALES:						
Outside customers	¥1,746,659	¥10,856	¥56,323	¥1,813,838	¥ —	¥1,813,838
Inter-segment	3,223	19,676	20,899	43,798	(43,798)	—
Total	1,749,882	30,532	77,222	1,857,636	(43,798)	1,813,838
Operating expenses	1,736,059	22,390	78,040	1,836,489	(44,708)	1,791,781
Operating income (loss)	¥ 13,823	¥ 8,142	¥ (818)	¥ 21,147	¥ 910	¥ 22,057
IDENTIFIABLE ASSETS, DEPRECIATION AND AMORTIZATION AND CAPITAL EXPENDITURES:						
Assets	¥1,091,592	¥63,539	¥37,122	¥1,192,253	¥49,918	¥1,242,171
Depreciation and amortization	¥ 21,792	¥ 2,353	¥ 148	¥ 24,293	¥ (801)	¥ 23,492
Capital expenditures	¥ 22,532	¥ 2,959	¥ 198	¥ 25,689	¥ (260)	¥ 25,429

Year ended March 31, 2003	Petroleum	Oil Resource Development	Other	Total	Elimination or corporate	Consolidated
						Millions of yen
NET SALES:						
Outside customers	¥1,830,940	¥ 9,773	¥62,055	¥1,902,768	¥ —	¥1,902,768
Inter-segment	1,658	23,625	11,874	37,157	(37,157)	—
Total	1,832,598	33,398	73,929	1,939,925	(37,157)	1,902,768
Operating expenses	1,816,403	25,452	73,392	1,915,247	(36,646)	1,878,601
Operating income	¥ 16,195	¥ 7,946	¥ 537	¥ 24,678	¥ (511)	¥ 24,167
IDENTIFIABLE ASSETS, DEPRECIATION AND AMORTIZATION AND CAPITAL EXPENDITURES:						
Assets	¥1,151,639	¥60,466	¥38,430	¥1,250,535	¥(3,805)	¥1,246,730
Depreciation and amortization	¥ 20,628	¥ 2,711	¥ 115	¥ 23,454	¥ (612)	¥ 22,842
Capital expenditures	¥ 21,240	¥ 3,305	¥ 151	¥ 24,696	¥ (564)	¥ 24,132

Year ended March 31, 2003	Petroleum	Oil Resource Development	Other	Total	Elimination or corporate	Consolidated
					Thousands of U.S. dollars (Note 1)	
NET SALES:						
Outside customers	$15,232,446	$ 81,306	$516,265	$15,830,017	$ —	$15,830,017
Inter-segment	13,794	196,539	98,793	309,126	(309,126)	—
Total	15,246,240	277,845	615,058	16,139,143	(309,126)	15,830,017
Operating expenses	15,111,506	211,739	610,590	15,933,835	(304,875)	15,628,960
Operating income	$ 134,734	$ 66,106	$ 4,468	$ 205,308	$ (4,251)	$ 201,057
IDENTIFIABLE ASSETS, DEPRECIATION AND AMORTIZATION AND CAPITAL EXPENDITURES:						
Assets	$ 9,581,023	$503,045	$319,717	$10,403,985	$ (31,655)	$10,372,130
Depreciation and amortization	$ 171,614	$ 22,554	$ 957	$ 195,125	$ (5,092)	$ 190,033
Capital expenditures	$ 176,905	$ 27,496	$ 1,257	$ 205,458	$ 4,693)	$ 200,765

Geographic segment information is not disclosed as the Company and its consolidated subsidiaries operate mainly Japan.

Overseas sales information is not disclosed, as the amount of overseas sales is less than 10% of the consolidated net sales.

As described in Note 2, effective January 1, 2002, Cosmo Engineering changed its revenue recognition from the complete construction method to the percentage of completion method for long-term and large engineering contracts, which are more than 1-year term and of which the contract amount is more than ¥100 million ($832 thousand).

As a result of the change, the sales regarding “Other” for the year ended March 31, 2003 increased by ¥312 million ($2,596 thousand) and operating income increased by ¥9 million ($75 thousand), respectively.

The Company modified business sectionalization and business segment information for “Oil Resource Development” are disclosed independently for the year ended March 31, 2003 because sales, operating income, and assets for “Oil Resource Development” are more important from year to year.

Also, along with these changes, the Company and its consolidated subsidiaries reviewed the content of administrative expenses that were treated as unallocated operating expenses for the previous years and those expenses were allocated to each segment for the year ended March 31, 2003 to match each segment’s revenue against its expenses more accurately.

As a result, operating expenses for “Petroleum,” “Oil Resource Development” and “Other” increased by ¥670 million ($5,574 thousand), ¥16 million ($133 thousand) and ¥34 million ($283 thousand), respectively, and operating income for each of these three segments decreased by the same amount for the year ended March 31, 2003, respectively.

As described in Note 2, effective April 1, 2001, Cosmo Matsuyama Oil changed the method of costing inventories and the scope of calculation for the allowance of special repair work. As a result, operating expenses for “Petroleum” increased by ¥295 million ($2,218 thousand) for the year ended March 31, 2002.

15 PLEDGED ASSETS

Pledged assets as collateral at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	**2003**	**2003**
Land	¥ 270,787	**¥ 262,996**	**$ 2,187,987**
Buildings and structures at net book value	39,506	**36,475**	**303,453**
Machinery and equipment at net book value	47,966	**40,174**	**334,226**
Investments in securities	3,092	**2,744**	**22,828**
Treasury stock, at cost	26	**—**	**—**
Total	¥ 361,377	**¥ 342,389**	**$ 2,848,494**

Secured liabilities at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	**2003**	**2003**
Notes and accounts payable, trade	¥ 4	**¥ 32**	**$ 266**
Short-term loans	23,208	**25,678**	**213,627**
Long-term debt	226,395	**195,181**	**1,623,802**
Other long-term liabilities	470	**470**	**3,911**
Total	¥ 250,077	**¥ 221,361**	**$ 1,841,606**

Other pledged assets at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	**2003**	**2003**
CONTINGENCIES FOR LOANS PAYABLE:			
Investments in securities	¥ 453	**¥ 665**	**$ 5,532**
DEPOSITS AS SECURITY FOR DEALING:			
Marketable securities	¥ 12	**¥ 10**	**$ 83**
Investments in securities	50	**53**	**441**
Total	¥ 62	**¥ 63**	**$ 524**

16 SUBSEQUENT EVENTS

On June 27, 2003, the Company’s annual shareholders’ meeting approved the year-end cash dividend payment of ¥3.00 (US$0.02) per share, or a total of ¥1,894 million ($15,757 thousand) to shareholders of record at March 31, 2003.

INDEPENDENT AUDITORS' REPORT

Asahi & Co

CERTIFIED PUBLIC ACCOUNTANTS
(ASAHI KANSA-HOJIN)

To the Shareholders and Board of Directors of
COSMO OIL COMPANY, LIMITED:

We have audited the accompanying consolidated balance sheets of COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 1 to the consolidated financial statements, effective April 1, 2000, COSMO OIL COMPANY, LIMITED and domestic subsidiaries prospectively adopted the new Japanese accounting standards for financial instruments and employees' retirement and severance benefits and the revised Japanese accounting standard for foreign currency translation.

(2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2000, COSMO OIL COMPANY, LIMITED changed the valuation method of inventories.

(3) As discussed in Note 14 to the consolidated financial statements, effective April 1, 2002, COSMO OIL COMPANY, LIMITED and subsidiaries changed its business segment and allocating method of operating expenses.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 27, 2003

(As of March 31, 2003)

JAPAN

CRUDE OIL DEVELOPMENT

Cosmo Energy Exploration and Development Co., Ltd.
- Tokyo
- ¥200 million
- 100.00%
- Crude Oil Development

Abu Dhabi Oil Co., Ltd. (Japan)*
- Tokyo
- ¥10,090 million
- 51.14%
- Petroleum exploration and production

Cosmo Oil Ashmore Ltd.*
- Tokyo
- ¥1,472 million
- 54.35%
- Petroleum exploration

United Petroleum Development Co., Ltd.#
- Tokyo
- ¥2,010 million
- 35.00%
- Petroleum exploration and production

Mubarraz Oil Co., Ltd.#
- Tokyo
- ¥32,877 million
- 33.51% (13.22%)
- Petroleum exploration and production

TRANSPORTATION

Cosmo Tanker Co., Ltd.*
- Tokyo
- ¥30 million
- 100.00%
- Marine transportation

Cosmo Kaiun Co., Ltd.*
- Tokyo
- ¥330 million
- 100%
- Marine transportation and shipping agency

PETROCHEMICAL PRODUCTION

Cosmo Matsuyama Oil Co., Ltd.*
- Ehime Pref.
- ¥3,500 million
- 100.00%
- Manufacture and sales of petrochemical products

Maruzen Petrochemical Co., Ltd.#
- Tokyo
- ¥3,500 million
- 40.00% (10.00%)
- Petrochemical development

DISTRIBUTION & STORAGE

Tokyo Cosmo Logistics Co., Ltd.*
- Chiba Pref.
- ¥50 million
- 52.00%
- Trucking and transportation services

Yokkaichi LPG Terminal Co., Ltd.*
- Mie Pref.
- ¥1,600 million
- 55.00% (55%)
- LPG import, storage, and shipment

Tozai Oil Terminal Co., Ltd.#
- Tokyo
- ¥480 million
- 50.00%
- Contracts for oil receiving and shipping works

Okinawa CTS Corp.#
- Okinawa Pref.
- ¥4,000 million
- 35.00%
- Oil storage, receiving, and shipping works

Hokuto Kogyo Co., Ltd.*
- Hokkaido
- ¥20 million
- 100.00%
- Oil receiving and shipping works

SALES

Cosmo Oil Lubricants Co., Ltd.*
- Tokyo
- ¥1,620 million
- 100.00%
- Information and technical services related to lubricating oil

Cosmo Petroleum Gas Co., Ltd.*
- Tokyo
- ¥3,500 million
- 100.00%
- Import and sales of LPG

Cosmo Asphalt Co., Ltd.*
- Tokyo
- ¥300 million
- 98.10%
- Sales of asphalt

Cosmo Oil Service Co., Ltd.*

- Tokyo
- ¥585 million
- 100%
- Marketing and sales of oil products

Toyo Kokusai Oil Co., Ltd.*

- Tokyo
- ¥232 million
- 96.25%
- Marketing and sales of oil products

RESEARCH & DEVELOPMENT

Cosmo Research Institute*

- Tokyo
- ¥200 million
- 100.00%
- Research and technical corporation

Cosmo Technology Research Institute*

- Tokyo
- ¥10 million
- 100%
- Research and development of petroleum refining technology, etc.

ENGINEERING

Cosmo Engineering Co., Ltd.*

- Tokyo
- ¥385 million
- 50.00%
- General plant and equipment engineering

OTHERS

Cosmo Ventures Inc.*

- Tokyo
- ¥300 million
- 100.00%
- Integrated human resources services and management of leased real estate

Cosmo Trade & Service Co., Ltd.*

- Tokyo
- ¥200 million
- 100.00%
- Service-station-related business and other services

Cosmo Computer Center Co., Ltd.*

- Tokyo
- ¥50 million
- 100.00%
- Computer business consignee

Real Partners Corporation

- Tokyo
- ¥50 million
- 100.00%
- SAP R/3 consulting and system integration service

OVERSEAS

Cosmo Oil International Pte., Ltd.*

- Singapore
- S$19,500,000
- 100.00%
- Purchase and sale of crude oil and finished products

Cosmo Oil of U.S.A., Inc.*

- New York
- US$250,000
- 100.00%
- Business services for Cosmo Oil Co., Ltd.

Cosmo Oil (U.K.) Plc.*

- London
- US$4,982,342
- 100.00%
- Purchase and sale of crude oil and finished products

- Location
- Paid-in Capital
- Shareholdings (indirect shareholdings)
- Principal Business

* Consolidated
\# Accounted for by the equity method

(As of March 31, 2003)

COMMON SHARES

Authorized: 1,700,000,000
Issued: 631,705,087

PAID-IN CAPITAL

¥51,887 million

STOCK LISTINGS

Tokyo, Osaka, Nagoya

NUMBER OF SHAREHOLDERS

47,086

TRANSFER AGENT

The Chuo Mitsui Trust & Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku,
Tokyo 105-8574, Japan

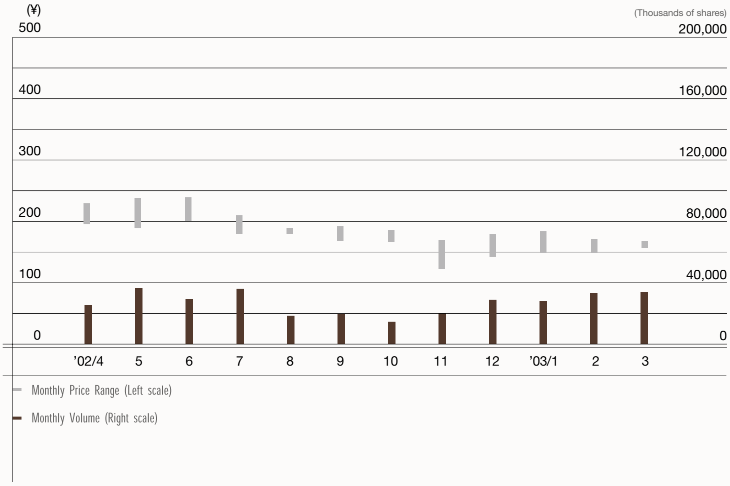
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Asahi & Co.

PRINCIPAL SHAREHOLDERS

	Number of shares owned (Thousands)	Percentage of total shares issued
Mizuho Corporate Bank, Ltd.	31,320	4.95%
UFJ Bank, Ltd.	25,268	4.00
Japan Trustee Services Bank, Ltd. (trust account)	24,698	3.90
The Master Trust Bank of Japan, Ltd. (trust account)	23,766	3.76
Mitsui Sumitomo Insurance Company, Limited	22,952	3.63
Cosmo Oil Employees' Shareholding Association	19,701	3.11
The Kansai Electric Power Co., Inc.	18,600	2.94
The Tokio Marine and Fire Insurance Company, Limited	16,335	2.58
Mitsui Asset Trust & Banking Company, Limited As Trustee For Pension Trust	15,941	2.52
SOMPO JAPAN INSURANCE INC.	15,797	2.50

PRICE RANGE OF STOCK AND TRADING VOLUME



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