COSMO OIL

>STEP BY STEP, MINUTE BY MINUTE...

ANNUAL REPORT 2004
for the year ended March 31, 2004

› **COSMO OIL COMPANY, LIMITED** is an integrated petroleum company engaged in activities ranging from oil exploration and production through refining, distribution and marketing. At the same time, the Company is committed to the development and supply of new types of energy for the future. With the steady supply of energy as its main mission, Cosmo Oil is taking steps to build a stronger company for the benefit of stakeholders and society as a whole. Realizing the vital role that energy plays in everyday life, the Company is also striving to please its customers, every minute of the day.

›... FOR A BETTER TOMORROW.

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FINANCIAL HIGHLIGHTS

Cosmo Oil Company, Limited and its Consolidated Subsidiaries Years ended March 31

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
FOR THE YEAR:			
Net sales	¥1,902,768	¥1,916,278	$18,131,119
Operating income	24,167	25,246	238,868
Income before income taxes and minority interests	12,966	17,592	166,449
Net income	3,426	8,179	77,387
Cash flows from operating activities	(26,975)	101,827	963,450
AT YEAR END:			
Total shareholders' equity	¥ 193,595	¥ 204,806	$ 1,937,799
Total assets	1,246,730	1,260,092	11,922,528
Interest-bearing debt	562,649	559,259	5,291,503
AMOUNTS PER SHARE:			
Net income	¥ 5.42	¥ 12.95	$0.12
Cash dividends	6.00	6.00	0.06
Shareholders' equity	306.67	324.43	3.07
RATIOS:			
Return on equity (ROE) (%)	1.8	4.1	
Return on assets (ROA) (%)	0.3	0.7	
Interest-bearing debt ratio (%)	45.1	44.4	

Note: U.S. dollar amounts in this report have been translated, for convenience only, at the exchange rate of ¥105.69=$1.00, the prevailing rate at March 31, 2004.

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.

› ESTABLISHING A FOOTHOLD FOR THE FUTURE

› In the course of steering Cosmo Oil, we seek to fulfill our responsibility to society, and establish a more solid management foundation in accordance with the two central elements of our management vision: *creating future value,* and *harmony and symbiosis.* First, creating future value simply means providing value for all stakeholders in line with various needs through the stable provision of energy, the lifeblood of an economy. This also means building a business model that allows for sustainable growth, generating a stable cash flow to ensure that profits are not affected by such fluctuations in the macroeconomic environment as crude oil prices or exchange rates. Looking ahead, we feel that it is important for us to implement the measures of our Medium-Term Management Plan ahead of schedule, and make certain that we achieve our management goals.

Second, in accordance with the vision of harmony and symbiosis, and as a member of society, we seek to fulfill our corporate responsibilities in a number of ways, such as addressing environmental problems on both a global scale and within our business area. We will also continue to strictly comply with laws and regulations, while establishing as quickly as possible a highly transparent corporate structure. Successfully fulfilling this dual mission is a way of giving back to society and all stakeholders in Cosmo Oil, and we believe will lead to greater business stability and future growth.

BUSINESS ENVIRONMENT AND PERFORMANCE REVIEW

› The business environment during fiscal 2004 (ended March 31, 2004), was extremely adverse. The wartime premium on crude oil, which had risen quickly at the end of fiscal 2003 along with the growing tension over the situation in Iraq, fell off sharply at the start of the fiscal year, with Dubai crude (see graph 1) trading at around $23/barrel. OPEC's subsequent production cutback and an upturn in the global economy pushed up prices, which reached the $30/barrel range by the end of the term. Exchange rates (see graph 2) at the beginning of the fiscal year were around ¥121/U.S. dollar, falling to a three-year low at the end of the term of ¥103/U.S. dollar, the result of the growing U.S. trade deficit, and yen buying prompted by hints of a slight recovery of demand from private companies in Japan.

Yaichi Kimura, President (left)
Keiichiro Okabe, Chairman (right)

Looking at Cosmo Oil's earnings, although sales volumes of heavy fuel oil C and gasoline were strong, a record-setting warm winter prompted a decline in the sales volume of heating fuel, resulting in an overall decrease of 1.4% from the previous fiscal year. However, the improvement in product prices, and the positive effects of the Medium-Term Management Plan led to a 0.7% rise in consolidated net sales to ¥1,916,278 million, a 4.5% increase in operating income (see graph 3) to ¥25,246 million, and net income that more than doubled, rising 138.7% to ¥8,179 million.

Particularly notable were the positive results of the business restructuring carried out under the Medium-Term Management Plan (covering the period from fiscal 2004 through fiscal 2006), indicating a gradual improvement in an earnings structure that is able to effectively generate profits without being subject to such external factors as fluctuations in crude oil prices or exchange rates.

In fiscal 2005, the petroleum industry is beginning to benefit from the reductions in refining capacity. The supply and demand balance in Japan is also expected to tighten, owing to periodical shutdown maintenance of refineries across the industry and healthy sales of petroleum products overseas, and the business environment will gradually shift to one in which crude oil prices are more readily reflected in the market. It will finally be an environment in which value creation and rationalization will contribute directly to earnings. Such an environment will certainly be to our advantage, and we are confident that successful implementation of the Medium-Term Management Plan will put us on a stable growth track.

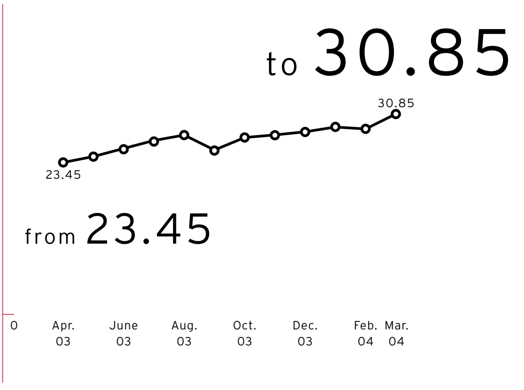
COSMO OIL'S COMPETITIVE ADVANTAGE

› We would now like to discuss the competitive advantages that are the driving force behind the implementation of the various measures in our Medium-Term Management Plan. These can be divided into three main areas: stable production in the oil exploration and production division, placement and operation of our four refineries, and high earnings capacity in our marketing subsidiaries.

OIL EXPLORATION AND PRODUCTION DIVISION

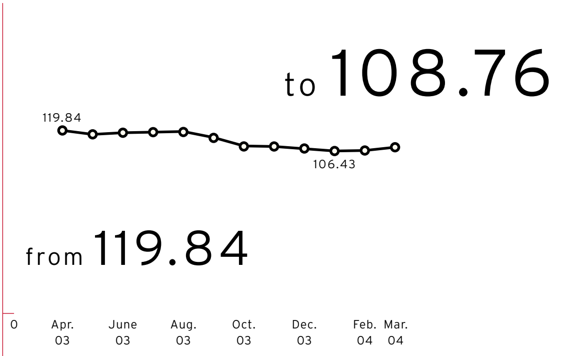
› In order to ensure a stable supply of petroleum products—one of our most important corporate responsibilities—it is essential that we make efforts with regard to the upstream business of crude oil development. Currently, crude oil production at Abu Dhabi Oil Co., Ltd. and other affiliated companies in Abu Dhabi (UAE) is approximately 50,000 barrels/day, slightly less than 10% of our total import volume. Along with Qatar Petroleum Development Co., Ltd., which is expected to begin production in fiscal 2006, we are seeking to graph 1:

Crude oil prices (Dubai)
(US$/b)



graph 2:

Currency exchange rates
(yen/US$)



Source: Average Business Day Telegraphic Transfer Middle Rates from The Bank of Tokyo-Mitsubishi, Ltd.

graph 3:

Operating income / Net income (loss)
(billions of yen)

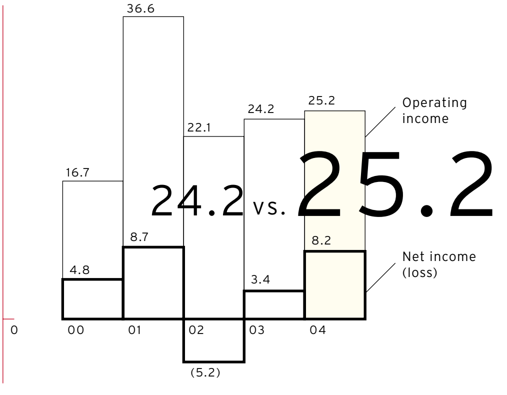
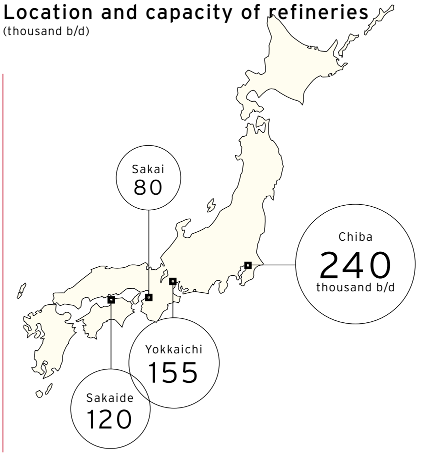


chart 1:

Location and capacity of refineries
(thousand b/d)



Cosmo Oil's refineries are located near cities with large consumer bases, allowing production to respond in a timely and appropriate manner.

maintain and expand a stable supply from existing fields in the Middle East, the core area for crude oil development. We are also making a concerted effort to address environmental problems in producing countries, through such initiatives as the Zero-Flare Project at Abu Dhabi Oil Co., Ltd.'s oil fields, in which the sulfur-tainted gas that is emitted during the production of crude oil is re-injected into the ground, rather than burned in the "flare," reducing the amount of sulfur released into the atmosphere. This project has been highly praised by the Abu Dhabi government. More generally, the mutual trust built up through approximately 40 years of personal exchanges that extend beyond business is also an invaluable asset.

SUPPLY DIVISION

› Cosmo Oil's strength in terms of supply stems from its four, highly competitive refineries located in regions adjacent to large consumer bases (see chart 1).

Also, sophisticated catalyst development technology and flexible facility operations allow us to produce environmentally friendly products or match the demand for light petroleum products without large-scale investment. In particular, we have strengthened supply chain management (SCM) with an optimal operating structure that utilizes enterprise resource planning (ERP), allowing us to improve low-cost operations and value-added production.

MARKETING DIVISION

› The strengths of our marketing division are the marketing strategies of our sales subsidiaries and their high earnings capacity. Average monthly sales volume at self-service stations that are operated directly or by sales subsidiaries is 391kl/month, nearly four times the volume at our general service stations (106kl/month), and approximately twice the industry average for self-service stations (193kl/month). Auto B-cle service stations, which offer car repair and maintenance facilities, are also able to contribute earnings from car care directly to consolidated earnings because a majority are operated by sales subsidiaries, helping to maintain a high level of earnings. At the same time, the expertise we've acquired in operating self-service stations and car care sales accumulated at directly operated and sales subsidiary outlets is being shared with affiliated stores in which we have no ownership interests (designated independent dealers). We believe that strengthening the competitiveness of the entire Cosmo Oil network in this way will result in a stable earnings base. Specific measures and targets for this sales strategy are detailed in the Medium-Term Management Plan section of this report.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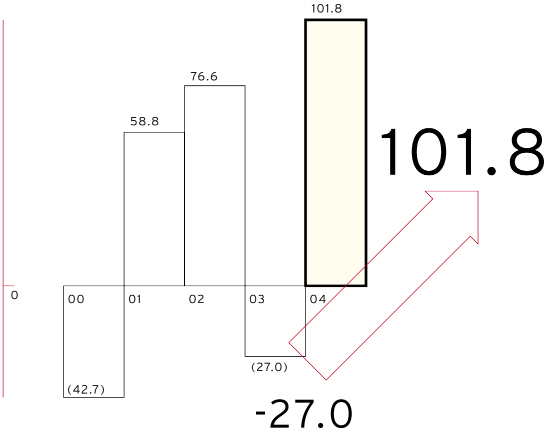
graph 4:

Cash flows from operating activities

(billions of yen)



graph 5 :

Interest-bearing debt target

(billions of yen)

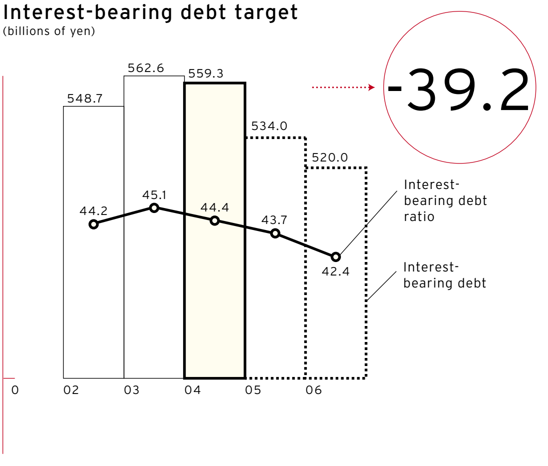


chart 2:

Our future business portfolio

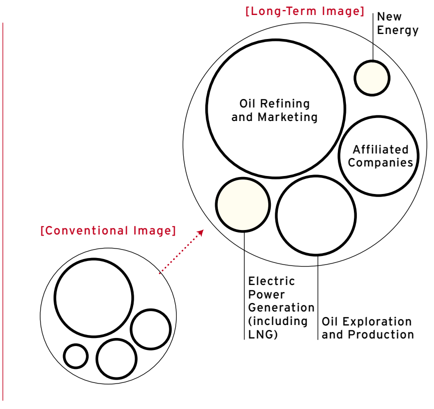
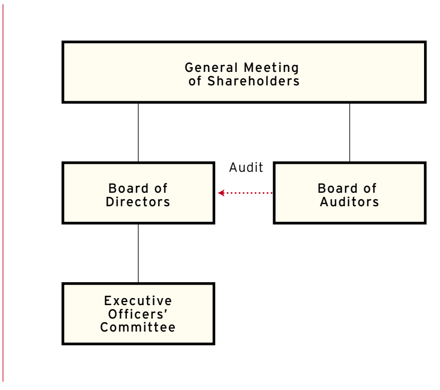


chart 3:

New corporate governance structure



Expand the electric power generation, oil exploration and production, LNG and new energy businesses, as well as affiliated companies to build profitable growth.

Cosmo Oil abolished the former Executive Committee and established the Executive Officers' Committee.

Finally, another of our strengths is the driving force behind the operational management, which allows us to efficiently utilize these three management resources to their fullest extent. Through decision making that is both top-down and bottom-up, we possess the ability to respond flexibly to the external environment. We take pride in this "harmonious organization," a structure that generates synergies from the combination of individual abilities and structural capability.

MANAGEMENT ISSUES

› Now we would like to report on the progress of the management issues identified in last year's annual report. We would also like to address the initiatives outlined in the Medium-Term Management Plan—reforms to the distribution structure, our response to the changing demand structure, and our plan with regard to liberalization in the energy sector—which are detailed in the Medium-Term Management Plan section of this report and under "Our Future Business Portfolio as a Comprehensive Energy Company" on the next page.

ISSUES RESOLVED OR CLOSE TO RESOLUTION

PETROLEUM PRODUCTS COMPLIANT WITH ENVIRONMENTAL STANDARDS

› In order to comply with new government regulations under consideration regarding the sulfur content in gasoline and diesel oil (less than 10ppm), we have pushed forward with our plan for installation of desulfurization equipment at the Chiba, Yokkaichi and Sakai refineries, and expect to be able to supply compliant products from these refineries from January 2005, ahead of the 2008 start date. We believe the Sakaide refinery is currently able to operate within the new regulations using existing equipment. Total investment was as forecast at ¥13.9 billion, and with our advanced desulfurization catalyst development technology we were able to realize savings of approximately ¥10.0 billion.

EXCESS CAPACITY

› Cosmo Oil's topper capacity ratio during fiscal 2004 was 87.8%, significantly higher than the industry average of 83.0%. This was because, although there was a slight falloff in demand (excluding a special procurement of heavy fuel oil C by Tokyo Electric Power Co., Inc.), growing refining margins allowed for more crude oil treatment, and we cut back product imports and domestic purchasing. Along with our plan to cut topper capacity by 50,000 barrels per day, closures of refineries throughout the industry helped resolve the excess capacity problem. However, considering the recent temporary shutdown of nuclear power plants and accidents at refineries, and that providing a stable supply of petroleum products is our most critical mission, we believe that it is necessary to maintain an optimum level of refining capacity.

Tariffs on petroleum products are due to be eliminated some time around 2006, and we are often asked if competitive imports from countries like South Korea and Singapore will negatively impact domestic demand or markets. We are looking at this as not so much a threat as an opportunity. Demand for petroleum products in China and Southeast Asia is growing quickly along with rapid economic development. Moreover, considering the demand structure in nominally export-oriented countries like Singapore and South Korea, the focus of import/export will be on covering the shortages of products on both sides, and on the pursuit of benefits in export costs, which means that it will not be one-sided import into Japan. Also, regulations on the amount of sulfur in gasoline and diesel oil will act as a nontariff barrier, and coupled with continued streamlining initiatives, Japanese refiners' competitiveness will improve in a relative sense. Consequently, though our export of petroleum products is currently around 500,000kl annually, we expect that the volume of both exports and imports will increase. This will also help resolve the problem of overcapacity in domestic refinery equipment.

ISSUES STILL BEING ADDRESSED

REDUCTION IN INTEREST-BEARING DEBT

› Interest-bearing debt (see graph 5) as of March 31, 2004 totaled ¥559.3 billion. This represented a slight reduction of ¥3.3 billion from the previous fiscal year, the result of advanced procurement of funds for a planned redemption of corporate bonds in fiscal 2005. Looking at trends in declining interest-bearing debt, import financing (short-term debt) will tend to swell reflecting crude oil sales, but long-term debt will steadily be reduced. The reduction in interest-bearing debt was one of our earnest desires even before the merger that established Cosmo Oil in April 1986, and by drawing on stable operating cash flow (see graph 4) we plan to achieve our target of ¥520.0 billion by the end of fiscal 2006.

OUR FUTURE BUSINESS PORTFOLIO AS A COMPREHENSIVE ENERGY COMPANY

› The 21st century will almost certainly be a time of great changes for mankind. Industrial structures are changing significantly along with the progress of technological innovation, and debate over the means of coping with finite energy resources and preservation of the global environment continues. Faced with this environment, Cosmo Oil has already begun to examine its existence and policies as a comprehensive energy company, and it is necessary for us to establish our management direction.

In order to accomplish this, using generated cash we need to reinforce our financial foundation as quickly as possible to establish an earnings structure, while at the same time build a business portfolio from a long-term perspective.

According to long-term energy demand forecasts complied by the Japanese government, by the year 2010 oil will account for approximately 45% of total demand (currently around 50%), with coal in second place at 18%. Liquid natural gas (LNG), which is expected to replace heavy fuel oil C, will account for no more than 15%. Oil will remain the main source of energy.

In addition, considering long-term energy demand, and regarding liberalization of the energy sector as a business opportunity, we must build a business portfolio appropriate to a comprehensive energy company. In addition to the oil exploration and production business and the electric power generation (gas) business, which are currently generating steady earnings, we are planning to cultivate new energy businesses and the LNG business that will in the future stand alongside oil refining and marketing as a core business (see chart 2).

OIL EXPLORATION AND PRODUCTION BUSINESS

› Although the oil exploration and production business is one of our strengths, it carries risks, and investment amounts are substantial. Consequently, our basic strategy with regard to development investment emphasizes selection and concentration, along with safety. We invest in the core areas of Abu Dhabi and Qatar, and the secondary area of Australia. In Abu Dhabi, we have maintained steady production since the 1960s through Abu Dhabi Oil Co., Ltd. (51.1% ownership) and United Petroleum Development Co., Ltd. (35% ownership). In addition to this, we plan to begin commercial production in Qatar in fiscal 2006.

DEREGULATION OF ELECTRIC UTILITIES

› Our independent power producer (IPP) facility, which uses residual oil from the Yokkaichi refinery, has been operating steadily since July 2003 (200,000kw), and provides stable earnings. We have also formulated business plans for thermoelectric power sales, retail sale of surplus electricity from refineries, and wind power generation.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ENTRY INTO THE LNG BUSINESS

› In June 2004, utilizing an area of the Sakaide refinery, we formed Sakaide LNG K.K. (20.0% ownership) jointly with Shikoku Electric Power Co., Inc. and Shikoku Gas Co., Ltd., to receive, store, vaporize and deliver LNG. Along with LNG Chubu Corporation (15.0% ownership), which is already operating, and Sakai LNG K.K. (12.5% ownership), which is due to commence business in 2005, we now have in place an infrastructure that will be able to meet future energy demand. We plan to cultivate this business to become one of the key elements of our future operations.

NEW ENERGY

› In anticipation of the widespread use of automotive fuel cells, we are taking steps toward trial operation of hydrogen fueling stations. This business holds great potential for the future, and is an exciting business sector.

COSMO OIL'S CSR PROGRAM

› In order to discover a social value in our existence, we are building a foundation for sustainable growth through our business activities, while at the same time seeking a highly transparent structure rooted in corporate ethics. In addition, we are committed to fulfilling our social responsibilities by contributing to environmental preservation and society at large.

As a comprehensive energy company, Cosmo Oil is actively involved in environmental activities, both on a global scale and within its business areas. We hope to strengthen our environmental and social efforts to be a step beyond simply complying with laws and regulations, such as with our voluntary establishment, ahead of government regulations, of a supply structure for gasoline and diesel with sulfur content less than 10ppm.

During fiscal 2004, we established a CSR & Environmental Affairs Office. The CSR & Environmental Affairs Office controls three committees, the existing Global Environment Committee and Comprehensive Safety Action Headquarters, and the newly established Human Rights Committee, and provides a structure for implementation.

In terms of compliance, in fiscal 2003 we established a Corporate Ethics Committee, directly linked to the Board of Directors, which sets strict guidelines and ensures that they are adopted and adhered to throughout the Group. For more details, see the Corporate Social Responsibility Section of this report.

In terms of the corporate governance structure (see chart 3), in a move to separate management auditing and business execution, we abolished the Executive Committee and established the Executive Officers' Committee in July 2004 to clarify the position of the Board of Directors in overseeing operations and strengthen decision-making capabilities in business execution. Auditing functions are carried out under the auditing system, with the aim of ensuring a structure suited to our corporate culture and commensurate with Japanese companies. Auditors sit on the Board of Directors, Executive Officers' Committee and many other types of management committees, strengthening the auditing of directors.

In pursuit of corporate social responsibility (CSR) management, during fiscal years 2003 and 2004 we made many efforts regarding policy formation and structural development for corporate governance and compliance. One of our issues for the future is how to make this structure more practical, and to this end education of top management, related departments and all employees is crucial.

Regarding the incident during fiscal 2004 in which customer information from Cosmo The Card—the key component of our sales strategy—was leaked by the system development outsource company, we sincerely apologize to all our card members, as well as our shareholders and investors, for the concern we have caused. We will further strengthen our crisis management structure, and so that we can be a company that continually provides safety and reliability to all stakeholders, will enhance our information disclosure to remain sincerely committed to maintaining the public trust.

We seek to improve corporate value through the establishment of a stronger earnings base while delivering long-term, stable dividends. We will also continue to provide timely and appropriate information disclosure, and make diligent efforts to respond to any manner of question or concern, and reflect these valued opinions in our management. Thank you for your continued support.

July 1, 2004

Keiichiro Okabe
Chairman

Yaichi Kimura
President

>IMPROVING OUR FOOTWORK

"Quickly achieving objectives in the Medium-Term Management Plan
is one of my most important duties as President of Cosmo Oil."
Yaichi Kimura, President

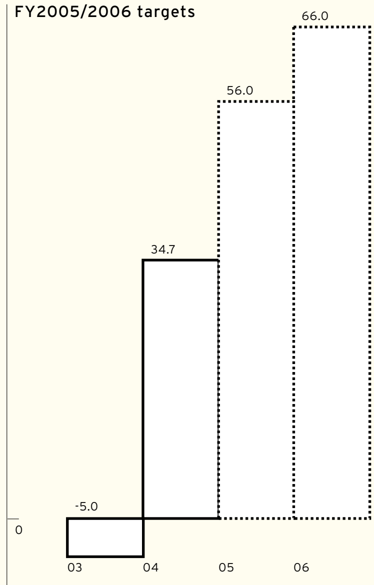
Operating income
(billions of yen)

FY2004

43.0 target / 34.7* result

*Excluding impact of inventory valuations

FY2005/2006 targets



FISCAL 2004 RESULTS

› Despite the sharp recovery in overall business results for the fiscal year under review, excluding the impact of inventory valuations, operating income unfortunately did not reach our target. The sales volumes of kerosene and fuel oil A declined due to one of the warmest winter seasons on record. This impact was particularly noticeable because Cosmo Oil has a high dependence on kerosene and fuel oil A sales. Consequently, non-consolidated operating income, excluding the impact of inventory valuations, totaled ¥22.5 billion, ¥4.5 billion below our target of ¥27.0 billion.

Crude oil prices increased during the period and were favorable for consolidated subsidiary Abu Dhabi Oil Co., Ltd. However, the foreign exchange impact of an appreciating yen and a one-time decline in production volumes had a large negative impact on Abu Dhabi Oil Co., Ltd., leading to consolidated operating income of ¥34.7 billion, ¥8.3 billion below our target of ¥43.0 billion. Regarding balance sheet structural reforms, long-term borrowings are steadily declining, with interest-bearing debt falling to ¥559.3 billion as of the end of fiscal 2004, producing an interest-bearing debt ratio of 44.4%. The goal under the current Medium-Term Management Plan is to continue reducing interest-bearing debt to ¥520.0 billion by the end of fiscal 2006 and to achieve an interest-bearing debt ratio of 42.0%, using operating cash flow as the source of funding.

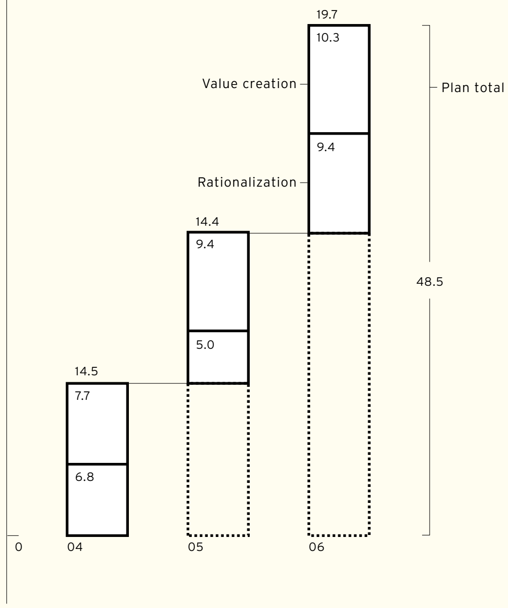
Value creation and rationalization

(billions of yen)

FY2004

	target	result	achievement ratio
Value creation	7.0	7.7	110.2%
Rationalization	7.2	6.8	94.7%
Total	14.2	14.5	102.4%

FY2005/2006 targets



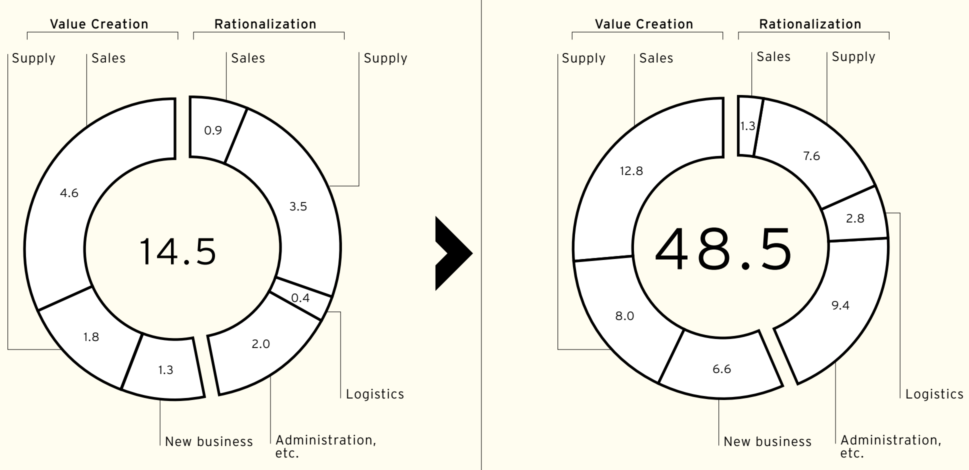
UPDATE ON MEDIUM-TERM MANAGEMENT PLAN AND RATIONALIZATION EFFORTS

› While the impact of external factors led to lower-than-targeted earnings, there was steady progress in establishing a business structure that is not swayed by external factors, as is outlined in the Medium-Term Management Plan. The actual amount of earnings improvement from value creation and rationalization in oil refining and marketing in the first year of the plan was ¥14.5 billion, or 102.4% of the original goal of ¥14.2 billion. A particularly significant achievement was the increase in the proportion of gasoline and diesel oil sales through directly operated service stations and marketing subsidiaries to 29%, which boosted profit margins and created value of ¥4.6 billion in the Oil Marketing division.

In the Oil Refining division, topper and fluid catalytic cracking unit (FCC) operating ratios improved, as refining margins expanded and imports as well as domestic purchases were reduced while refining operations were expanded. Topper operating ratios exceeded the industry average of 83.0% in reaching 87.8%, while FCC operating ratios reached 92.5%, meaning they are essentially operating at full capacity.

Value creation and rationalization
(billions of yen)

FY2004 | FY2004-2006 targets

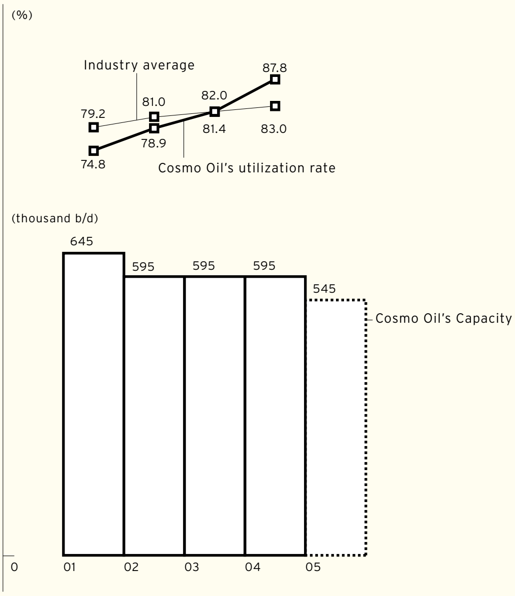


In addition, efforts under the structural earnings improvement program to maximize the potential capacity of secondary facilities such as FCC through the production of high-value-added petroleum products resulted in a ¥1.8 billion improvement in earnings. Consequently, solid progress was made in coping with structural changes in demand, which was one important issue to be addressed in the Medium-Term Management Plan.

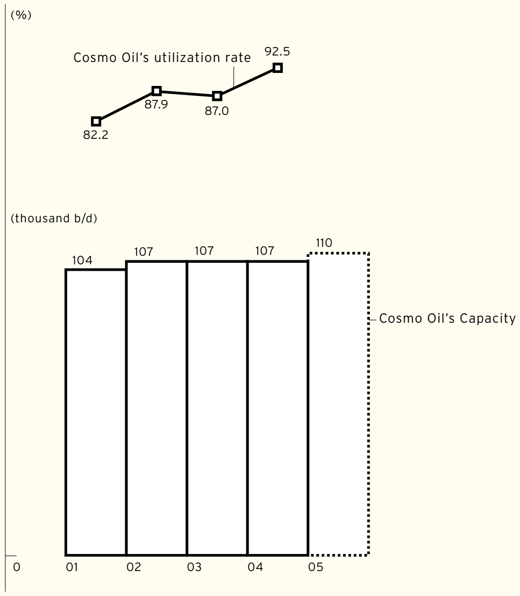
In new businesses, the start-up of independent power producer (IPP) operations at the Yokkaichi Refinery produced ¥1.3 billion of additional revenues.

The amount of earnings improvement achieved as a result of the above value creation measures was ¥7.7 billion, or 110.2% of the ¥7.0 billion target. On the other hand, the amount of improvement in earnings from rationalization efforts was ¥6.8 billion, or 94.7% of the target of ¥7.2 billion. While rationalization in terms of cost savings in the supply structure was greater than planned, the reduction in sales promotion expenses was less than planned because of an accelerated pace of new self-service stations in the Oil Marketing division, and there were delays in rationalizing distribution.

Changes in topper capacity and utilization rate



Changes in FCC capacity and utilization rate



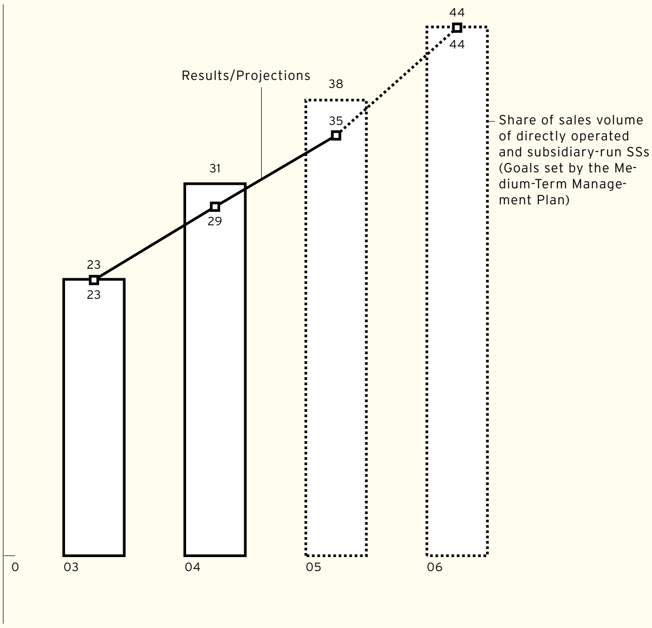
While not included in the Medium-Term Management Plan, the alliance with Nippon Oil Corporation has progressed to the sharing of supply and distribution infrastructure. While related savings were ¥11.0 billion, compared with planned savings of ¥15.0 billion, Cosmo Oil intends to further deepen and upgrade this alliance with future cooperative proposals.

In terms of overall progress, because fiscal 2004 results were above expectations, we have increased confidence that fiscal 2005 plans can be achieved. Because the conversion of the earnings structure through rationalization has led to new value created under the plan, Cosmo Oil is on the cusp of a future growth stage. As the person ultimately responsible for establishing a base from which future growth will spiral, I consider the earliest possible achievement of the Medium-Term Management Plan to be one of my most important responsibilities as Chief Executive of Cosmo Oil.

STRIDING TOWARD

GREATER SUCCESS

Directly operated and marketing subsidiaries share of automobile fuel sales volume
Results/Projections vs. Goals (%)

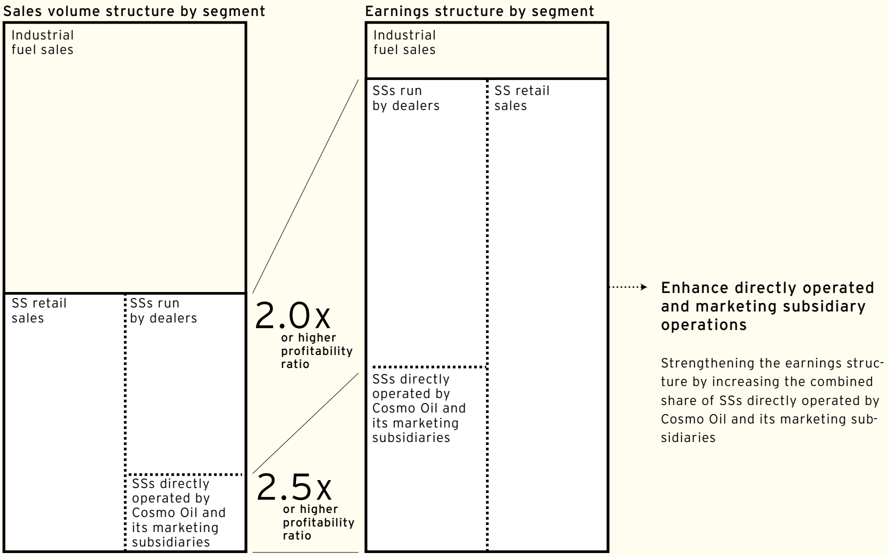


SOLID EVIDENCE OF STRUCTURAL DISTRIBUTION REFORMS WITH A 29% DIRECTLY OPERATED/MARKETING SUBSIDIARY RATIO

› A striking accomplishment of Cosmo Oil's fiscal 2004 results is the solid evidence of progress in the building of a foundation for stable earnings generation. The value creation achieved in marketing operations was ¥4.6 billion in fiscal 2004, or 115.9% more than was planned.

A further ¥5.9 billion improvement is planned for fiscal 2005, as we continue to focus on value creation in promoting reforms in our distribution structure. The main factor behind the better than planned improvement in the marketing segment was the solid increase in the ratio of highly profitable directly operated and marketing subsidiary sales. We will be further enhancing our earnings base by expanding the directly operated/marketing subsidiary ratio of total service station gasoline and diesel oil sales to 44% by fiscal 2006.

Marketing strategy:
Earnings structure of the directly operated and marketing subsidiary enhancement strategy



Note: Sales of gasoline, kerosene, diesel oil and fuel oil A

REASON FOR INCREASING THE DIRECTLY OPERATED/MARKETING SUBSIDIARY RATIO

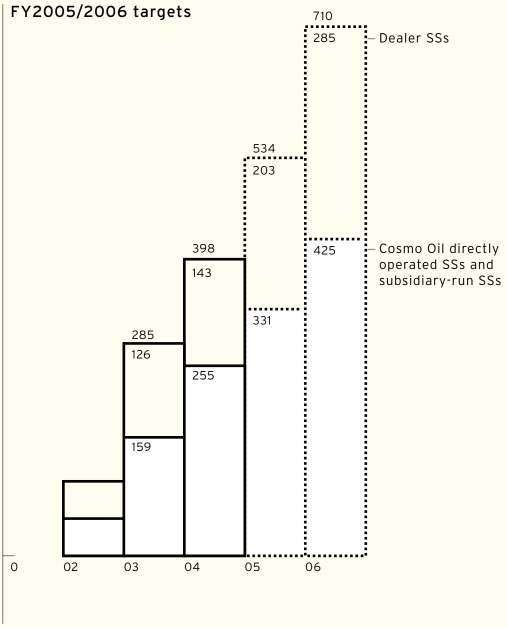
› The sale of automobile fuel oil through service stations is a main source of revenue and earnings for Cosmo Oil. Approximately 40% of the Company's sales volumes are sold through directly operated service stations or those operated by marketing subsidiaries and designated independent dealers. Sales of automobile fuel oil through service stations account for approximately 90% of earnings, with sales through directly operated service stations and those operated by marketing subsidiaries producing the best profit margins. This is because the strategic collaborative marketing efforts among directly operated and subsidiary-operated service stations to uniformly and actively promote higher sales volume self-service stations and to expand non-fuel merchandise sales works to lower selling costs.

Number of self-service SSs

FY2004

405 target / 398 result / 98.3% achievement ratio

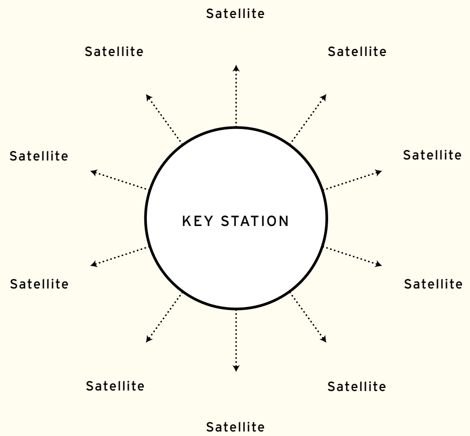
FY2005/2006 targets



TACTIC 1: ESTABLISHMENT OF NEW DIRECTLY OPERATED AND SUBSIDIARY-OPERATED LARGE-SCALE SELF-SERVICE STATIONS

› Cosmo Oil has two strategies to raise the directly operated/marketing subsidiary ratio. The first is the establishment of new large-scale self-service stations operated directly or through marketing subsidiaries, and the second is revitalization of loss-producing designated independent dealers by converting them to directly operated self-service stations. Presently, the nationwide ratio of self-service stations to total service stations is 6% to 7%, compared to an optimal ratio of around 45% as indicated by customer needs. However, it is also a fact that self-service alone does not draw customers. The reason that Cosmo Oil continues to promote self-service stations amidst a declining pace of self-service station diffusion among other companies in the industry is our accumulated know-how in directly operated/marketing subsidiary self-service stations. Our strength is the ability to provide a uniform level of service in all our service stations. Evidence

Auto B-cle network



The Auto B-cle network features key stations, in which investments are concentrated. Ten smaller satellite stations in the vicinity of each key station act as customer service points and operate at lower costs.

of this is the fact that Como Oil's self-service station average monthly sales volumes are 391kl/month, which is roughly two times the industry average of 193kl/month. Of the 405 self-service stations we planned to have open by the end of fiscal 2004, 398 are in operation, and are an indication of the progress being made in establishing the basis for distribution reforms. The goal for the end of fiscal 2006 is 710 self-service stations.

TACTIC 2: RESPONDING TO CUSTOMER CAR CARE NEEDS WITH THE AUTO B-CLE SERVICE STATION NETWORK

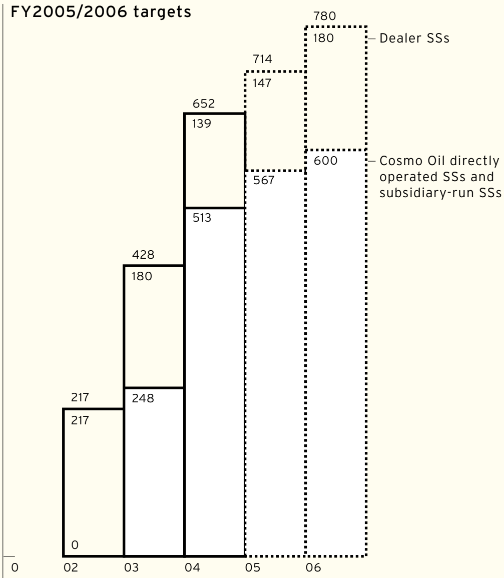
› Cosmo Oil's strategic response to the car care needs of customers is the creation of the directly operated Auto B-cle network. The Auto B-cle network strategy consists of a core of key large-scale service stations offering car repair, car wash and other car care facilities, with 10 other small and medium-sized satellite

Number of Auto B-cle SSs

FY2004

534 target / 652 result / 122.1% achievement ratio

FY2005/2006 targets



service stations in the vicinity of each key station acting as the customer service point for mandatory automobile inspection and maintenance services. By creating such a network, investment cost can be minimized through concentrated investment in the key service station, while customers are able to receive the same level and quality of service as the key station at any of the satellite stations. In addition, direct operation means that car care profits are directly reflected in Cosmo Oil's consolidated financials. We had 652 Auto B-cle service stations at the end of fiscal 2004, and are aiming for 780 by the end of fiscal 2006.

Number of Cosmo The Cards in force
(millions of cards)

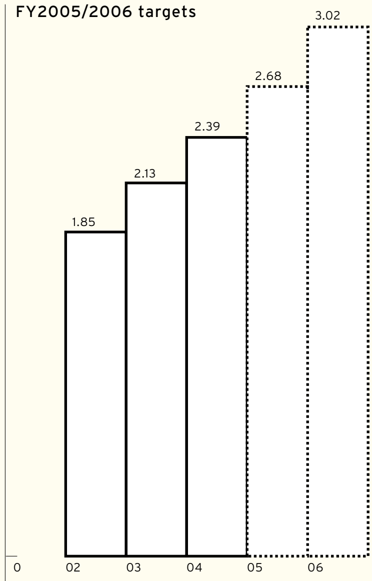
FY2004

2.50 target / 2.39 result

Customer utilization ratio

65%

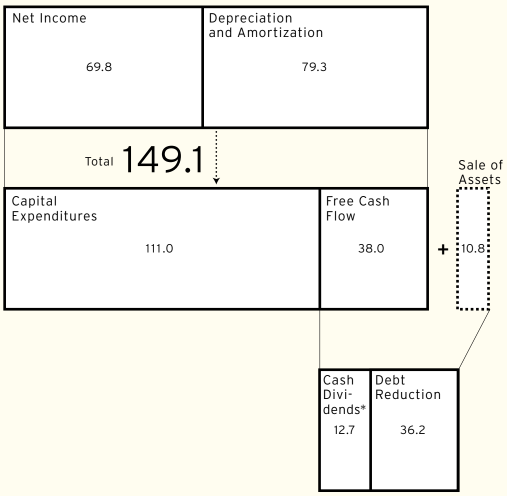
FY2005/2006 targets



TACTIC 3: A CARD TO FURTHER ENHANCE THE CONVENIENCE OF SELF-SERVICE AND AUTO B-CLE STATIONS

› There is a high degree of synergy between self-service stations and the Cosmo The Card credit card issued by Cosmo Oil, as 55% of self-service customers pay with the card, and as of the end of fiscal 2004 it was utilized by 65% of our card members. The reason that customers use the card is that it allows them to buy fuel and car care services without using cash, to conveniently and smoothly pay at the pump, and to receive cash-back benefits when purchasing fuel or car care merchandise, while the cards also have an ETC (electronic toll collection) function. In addition, once customers experience the convenience of the card, they continue to use it at Cosmo Oil's service stations. Consequently, Cosmo The Card is an important tool for drawing customers to newly opened self-service stations. The actual number of cards in force in fiscal 2004 was 2.39 million, compared with a planned 2.50 million, while the plan for fiscal 2006 is for 3.02 million cards in force.

Effective use of resources:
Allotment of funds
(billions of yen)



*Cash dividends assumed at 6 yen per share

FINANCIAL STRATEGY AND CAPITAL EXPENDITURE PLANS

› In order to ensure financial health, Cosmo Oil plans to reduce interest-bearing debt to ¥520.0 billion by the end of fiscal 2006. On the other hand, our Medium-Term Management Plan represents the cusp of a new growth stage, meaning that investment is required to support earnings growth through value creation. Our three-year plan calls for ¥111.0 billion in capital expenditures, which exceeds projected depreciation and amortization of ¥79.3 billion. However, we believe this level of investment is necessary to facilitate operating cash flows from fiscal 2007 onward.

These capital expenditures mainly consist of investment in environmental countermeasures, investment in directly operated/marketing subsidiary self-service station development, and crude oil exploration.

Our aim is to improve corporate value through earnings growth made possible by the abundant cash flows generated by value creation, and the reduction of interest-bearing debt.

As for shareholder returns, it is our intention to continue paying stable dividends, while maintaining an appropriate balance with interest-bearing debt reduction and forward-looking investment.

Cosmo Oil, in order to ensure a stable energy supply, is involved in all aspects of oil production, from the upstream business of oil exploration and production, to the downstream aspects of marketing finished petroleum products.

OIL EXPLORATION AND PRODUCTION

The Cosmo Oil Group has been involved in oil exploration and production since the latter 1960s. In the United Arab Emirates (Abu Dhabi), Group companies Abu Dhabi Oil Co., Ltd. and United Petroleum Development Co., Ltd. focus on ensuring stability and sophistication of the Group's operations. In Qatar, where Qatar Petroleum Development Co., Ltd., owned 42.5% by Cosmo Oil, has been conducting exploratory drilling, commercial production is scheduled to commence in fiscal 2006. Adopting selection and concentration, along with an emphasis on safety as its basic investment strategies, Cosmo Oil is seeking to ensure stable production in its core areas of Abu Dhabi and Qatar.

In order to further strengthen the existing oil development business, in July 2003 Cosmo Energy Exploration and Development Co., Ltd. was established out of the International Department, providing the Group with a unified structure for the oil development business.

OIL REFINING

The Cosmo Oil Group refines the crude oil brought from overseas at its four refineries, located in Chiba, Yokkaichi, Sakai and Sakaide, to produce such products as gasoline and kerosene. These refineries are located near cities in

FROM OIL EXPLORATION,

Japan with large consumer bases, making these production facilities ideal in terms of shipments. A fully integrated production and marketing structure utilizing such areas is the most notable aspect of Cosmo Oil, allowing its production to respond in a timely and appropriate manner.

Currently the Group is focusing on improving efficiency. Along with progress in added-value production through sophisticated refining techniques such as fluid catalytic cracking (FCC), and the lowering of refining costs by cutting maintenance expenses and energy conservation, Cosmo Oil is enhancing its international refining competitiveness through an optimization of the supply and demand balance by making use of diversification in purchasing methods and a strengthening of product exports.

DISTRIBUTION

Cosmo Oil has utilized a number of streamlining measures in its distribution operations as a means of improving efficiency and controlling costs. To improve the utilization rate of its tanker trucks, Cosmo Oil has increased the number of service stations at which the drivers alone unload the trucks, without the need for service station personnel to be present, and in fiscal 2003 acquired tanker trucks with a larger average load capacity of 19kl. Oil storage facilities have also been consolidated, reducing the number of locations from 39 to 38. Along with a rationalization scheme for maritime transport, further reductions have been made in distribution costs.

THROUGH REFINING,

OIL MARKETING

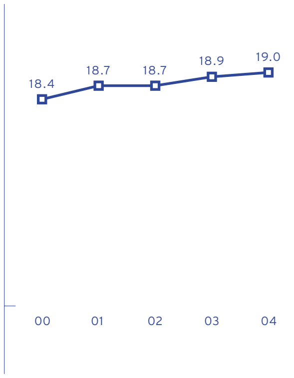
The most important task in expanding the earnings of the Cosmo Oil Group is to improve the selling power of service stations with better quality. In order to accomplish this, it is necessary to strengthen the aspects of the Cosmo Oil brand selected by customers.

First, there are the self-service stations. Surveys show that approximately 46% of customers want self-service stations. All of Cosmo Oil's self-service stations offer 24-hour service, and a smooth payment system at the pump. As evidence of their success, the average monthly sales volume at Cosmo Oil's self-service stations is 391kl, nearly four times the total of 106kl/month at our regular service stations. Compared to the industry average of 193kl/month for self-service stations, it is clear that Cosmo Oil is the preferred choice of customers. In fiscal 2004 the Company was working on the development of a type of service station combined with a convenience store, and has reached an agreement for joint development with Ministop Co., Ltd., a convenience store chain with locations nationwide.

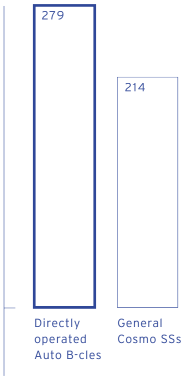
Another customer need is automotive maintenance and repair. Large-scale stores offering car care products and services are being built alongside service stations. Cosmo Oil is also building up its network of Auto B-cle service stations, directly operated businesses that offer comprehensive automotive support, from regular inspections and maintenance to compulsory safety inspection services. Gross profit from car care stations totals ¥2,401,000 per month, well beyond the ¥1,847,000 per month from regular service stations.

DISTRI BUTION,

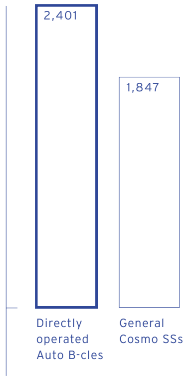
Average load capacity of tanker trucks
(kl)



Competitive advantages brought by Auto B-cles—Automobile fuel sales volume
(kl/month)



Gross profit from car care business
(thousands of yen/month)



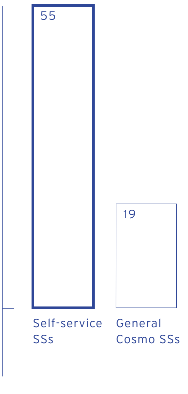
Cosmo Oil is also employing a strategy of offering its own credit card as a means of increasing customer convenience. Cosmo The Card is an in-house credit card that can only be used at Cosmo service stations. The card can be issued instantaneously at service stations, makes payment smooth, and offers a cash-back system based on the amount of fuel and car-care products and services purchased, making it popular with drivers and helping to expand the number of loyal customers. The card is particularly well suited to self-service stations, where approximately 55% of all customers use it for payment.

The Company also offers an in-house training program to help cultivate service station personnel, who are the foundation of better service. Accumulated expertise in operating service stations is shared with sales subsidiaries and affiliated stores, while each member of the service station staff conducts thorough field service tailored to the particular characteristics of the region.

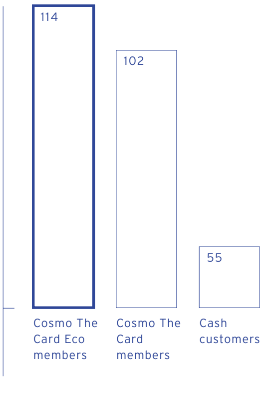
Service stations these days do not simply sell gasoline and diesel fuel, but are judged on the degree of comfort they provide to their customers, a shift from "quantity" to "quality." The initiatives and measures noted above are what will nourish the formation of an unmatched Cosmo Oil brand. The Cosmo Oil Group will continue to work toward providing products and services at competitive prices that genuinely satisfy customers.

MARKETING,  AND SELLING,

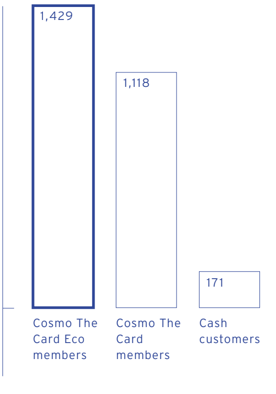
Cosmo The Card use rate
(%)



Competitive advantages brought by Cosmo The Card —Automobile fuel purchase volume
(kl/month)



Average purchase of car care products
(yen/month)



RESEARCH AND DEVELOPMENT

The Cosmo Oil Group participates in a special research project with the New Energy and Industrial Technology Development Organization (NEDO) and Petroleum Energy Center (PEC) in the field of petroleum products and refining technologies, and has developed a diesel oil desulfurization catalyst that enables the production of sulfur-free diesel oil (sulfur content of 10ppm or less) thanks to higher activation than other catalysts on the market. We have been conducting feasibility performance tests by using the catalyst technology at our refineries since May 2004.

In the new energy field, we participate in a special research project with the Japan National Oil Corporation (JNOC) involving the development of a proprietary catalyst for gas-to-liquid (GTL) technology for the manufacture of clean fuels such as kerosene and diesel oil that do not contain sulfur or aromatic compounds. We have commenced feasibility studies on the commercialization of GTL oil while conducting experiments at a pilot plant in Hokkaido.

In the field of environmental technologies, we have launched full-scale operations for reducing sludge generated at wastewater processing facilities at our refineries. These efforts have achieved a dramatic reduction in excess sludge, which must be disposed of as industrial waste. We began selling the equipment by licensing it to Cosmo Engineering Co., Ltd. In addition, Cosmo Oil developed and began trial sales from December 2002 of Immunoeco DXN, a reagent kit able to simply measure dioxin levels using the immunoassay method. Moreover, Cosmo Oil began sales of Pentakeep V, the world's first fertilizer with ALA, and signed a sales agreement with Seiwa Co., Ltd. in June 2003. The product was developed for agriculture applications using ALA (5-aminolevulinic acid) using the Company's low-cost manufacturing methods.

Cosmo Oil Group's research and development costs for fiscal 2004 totaled ¥3,558 million (oil business: ¥3,496 million; other businesses: ¥62 million).

TO EFFORTS FOR THE FUTURE OF ENERGY

AND FOR THE BENEFIT OF STAKEHOLDERS

COSMO OIL GROUP'S VIEW OF CSR

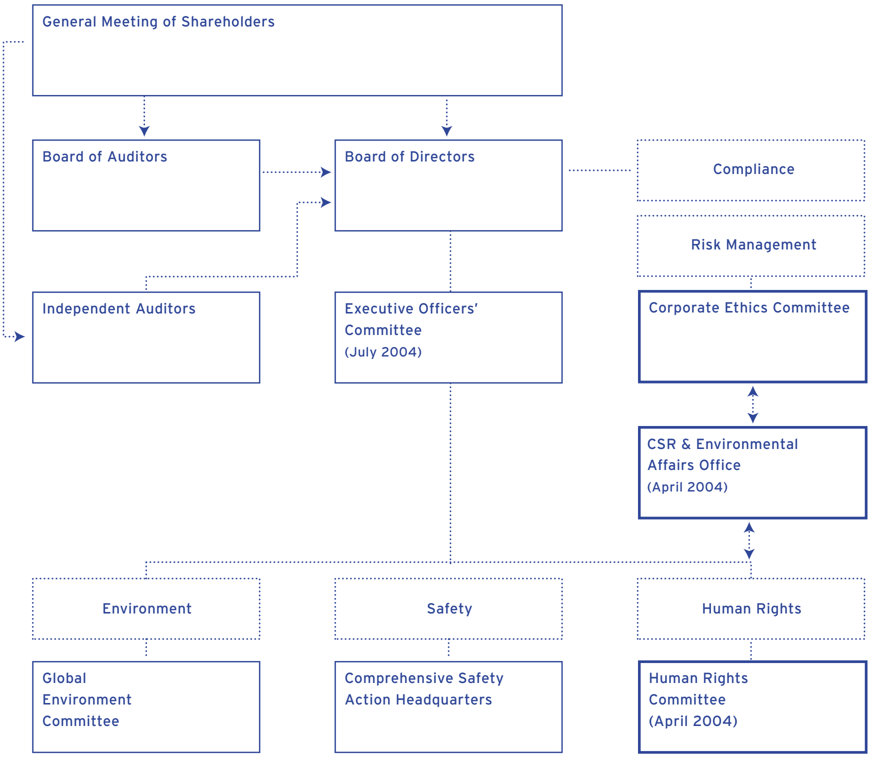
The Cosmo Oil Group is aware that its most crucial social mission is to provide a stable and efficient supply of the oil and energy necessary for daily life and the growth of business. The oil that we deal in offers a variety of benefits to the human race, and yet the fact remains that mass consumption of that oil is a heavy burden on the global environment. As an oil company, therefore, we recognize that the social responsibility of environmental preservation is equal to that of stable supply.

In striving for harmony and symbiosis among our planet, man and society, we aim for sustainable growth towards a future of limitless possibilities. The Group is also emphasizing its concept of the "triple bottom line"—the financial, environmental, and social dimensions of a business—strengthening its management foundations, and striving to increase corporate value.

We have addressed the Group's financial results elsewhere in this report. In terms of environmental preservation, Cosmo Oil recognizes that it is a global citizen, and as such has formulated a medium-term environmental plan called Blue Earth 21. In the course of its management, Cosmo Oil considers environmental protection activities taken in step with its customers, such as lowering the environmental impact of its business activities and products, to be an important issue.

As a member of society, Cosmo Oil also recognizes the importance of fairness and the sincerity of its actions, and while maintaining compliance in its corporate activities, has upgraded and strengthened its corporate structure to be highly transparent. These activities are discussed in detail in the following section.

CSR Management and Corporate Governance Structure



Note: Dates show when established.

THE BLUE EARTH 21 MEDIUM-TERM ENVIRONMENTAL PLAN

Cosmo Oil has adopted its own environmental management system, and is making vigorous efforts to achieve the goals of its Blue Earth 21 Medium-Term Environmental Plan. Under Cosmo Oil's Executive Officers' Committee, the supreme operating body, we have incorporated the Global Environment Committee and the Comprehensive Safety Action Headquarters. These organizational arrangements clarify decision-making processes involving environmental and safety measures, and facilitate the effective implementation of the plan-do-check-action (PDCA) cycle.

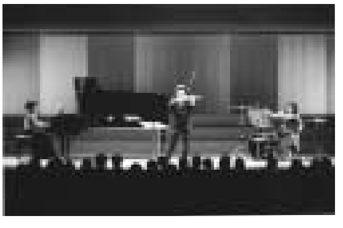
The Blue Earth 21 plan comprises nine core themes. These are explained in detail in the Sustainability Report 2004, but here we would like to detail two areas of success in fiscal 2004.

1. PRODUCING ENVIRONMENTALLY FRIENDLY PRODUCTS

Alongside stable supply of petroleum products, Cosmo Oil considers the production of environmentally friendly products to be its highest mission. Products with sulfur content of less than 50ppm have been available since April 2003, but Cosmo Oil is voluntarily putting in place a structure, ahead of government regulations, that will allow it to supply environmentally friendly gasoline and diesel fuel with even less sulfur content. Specifically, we expect to begin shipments of gasoline and diesel fuel with sulfur content of less than 10ppm beginning in January 2005.

2. GLOBAL WARMING PREVENTION AT REFINERIES

Cosmo Oil was able to exceed its environmental targets during fiscal 2004 for energy conservation at its refineries. Energy consumption increased as we built up the supply structure for low-sulfur products described above, but the introduction of energy saving devices and flexible operations allowed us to achieve a 10.3% reduction from 1990 levels, surpassing the target of a reduction of 8.3%.



(From left to right)
Global Environment Book,
Eleventh Annual Cosmo Waku Waku Camp,
"Cosmo Oil—Voice of the Earth" Concert

ENVIRONMENTAL AWARENESS FOR CHILDREN—THE COSMO CHILDREN'S EARTH SCHOOL

The Cosmo Children's Earth School is an environmental education program for elementary school children, the guardians of the next generation. Using the *Global Environment Book*, an environmental textbook published in 2002, the program seeks to make children aware of nature through a variety of experiences, and provide them with the opportunity to act on their own. Activity highlights from fiscal 2004 are as follows:

1. ELEVENTH ANNUAL COSMO WAKU WAKU CAMP

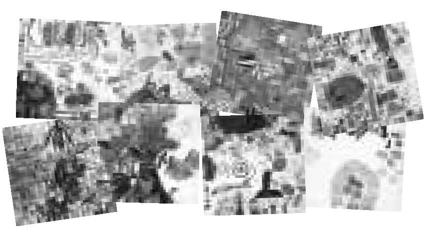
With a business closely related to today's "car society," every year since 1993 Cosmo Oil has held the Cosmo Waku Waku Camp for elementary students orphaned by traffic accidents. Since fiscal 2003 the program has emphasized environmental awareness. In fiscal 2004, 47 students were welcomed to the three-day camp, where 19 volunteers recruited from among Cosmo Goup's employees planned, organized and conducted a variety of fun activities.

2. NATURE ART WORKSHOP FOR KIDS

Artists are invited for this program in which children produce artworks inspired by their feelings toward nature. In fiscal 2004 the workshop welcomed the popular artist Jimmy Onishi, who led the children on a walk through a rain-filled forest and created a large canvas filled with images of living things in this forest. Postcards were created from the painting, which the children and staff at the workshop sent to 300 hospitalized children with a Christmas message.

3. ECONETS—WEB SITE FOR CHILDREN TO LEARN ABOUT THE EARTH

In an effort to support the integrated study periods in elementary schools, in September 2003 Cosmo Oil created a Web site for environmental education. Focusing on the activities and thoughts of people actually engaged in environmental preservation activities, the site provides useful information regarding environmental education, and notices of opportunities to participate in environmental activities.
URL: http://www.cosmo-oil.co.jp/econets (Japanese only)



(From left to right) Postcards from Nature Art Workshop for Kids, Econets Web site, Environmental magazine *Terre*

COSMO OIL ECO CARD FUND—PROTECTING THE ENVIRONMENT TOGETHER WITH CUSTOMERS

The Cosmo Oil Group has issued Cosmo The Card Eco as a way for its customers to participate in environmental preservation activities. Under this program, customers receive credit cards to use at Cosmo Oil service stations. A ¥500 donation is collected annually, and Cosmo Oil makes an additional contribution based on the purchase amount made with the card. There were approximately 75,000 card members in fiscal 2004, with the contributions collected used to benefit environmental preservation projects in developing countries and other areas. In order to make the aid more efficient, staff members from the Cosmo Oil Group are dispatched to the areas, and work in direct partnership with nonprofit organizations (NPOs) and other organizations. As more customers become cardholders and participate in these activities, synergies are generated among Cosmo Oil, its customers and NPOs, and activities with a significant social impact become possible. The results of activities during fiscal 2004 are detailed in the chart below.

ENVIRONMENTAL COMMUNICATION—PROVIDING OPPORTUNITIES TO ENJOY LEARNING ABOUT THE NATURAL ENVIRONMENT

It is important that more people become aware of the environment, and participate in environmental preservation activities. Cosmo Oil has sponsored an Earth Day Concert since 1990, and organizes cleanup campaigns in which radio announcements invite local residents to participate. Cosmo Oil also sponsors classical music concerts, which offer people high-quality cultural experiences and help attendees deepen understanding of its environmental activities. Cosmo Oil also publishes the environmental magazine *Terre*, combining entertainment and the opportunity to learn about the environment.

Cosmo Oil Eco Card Fund Fiscal 2004 Accomplishments

Purpose		Project	Contributions
Prevent Global Warming	Support Developing Countries	• Tropical Rainforest Protection Project (Papua New Guinea)	¥9,500,525
		• Tropical Rainforest Protection Project (Solomon Islands)	¥16,501,680
		• Greening the Silk Road Project (China)	¥500,420
		• Support Project for Environmental Refugees from Island Countries (Kiribati)	¥5,250,210
		• Silkworm Project (Philippines)	¥500,420
		• Endangered Natural Habitat Protection Project	¥9,944,620
	Environmental Education	• Rice Terrace Conservation Project (protection of terraced fields)	¥5,330,864
		• Environment education in elementary schools (Environmental Education Program)	
			¥47,528,739

BASIC STANCE ON CORPORATE GOVERNANCE

The Cosmo Oil Group seeks to further enhance its corporate governance structure in order to increase transparency and efficiency in its management, provide for quicker execution of operations, and deepen compliance. To enhance our governance structure, we have formulated the Cosmo Oil Group Management Vision, and the Cosmo Oil Group Corporate Ethics Regulations, which clearly express our principles. These do not simply represent a law-abiding spirit, but are proactive measures taken with consideration of safety and the environment. The Cosmo Oil Group, as a member of society, recognizes the importance of fairness and sincerity in its actions, and seeks to maximize the satisfaction of its shareholders, and all stakeholders.

IMPLEMENTATION OF CORPORATE GOVERNANCE MEASURES

1. MANAGEMENT ORGANIZATION AND STRUCTURE REGARDING DECISION MAKING, OPERATIONS AND AUDITING

a) Company-with-committees system versus the auditor system

Cosmo Oil has adopted the auditor system.

b) Appointment of outside directors and auditors

Cosmo Oil has five auditors, two of whom are outside corporate auditors as defined in Paragraph 1, Article 18 of the Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-Kaisha.

c) Overview of committees

The Cosmo Oil Group, in order to realize its management principles, has established the Corporate Ethics Committee, chaired by the president. The activities of this committee are supported by the Corporate Ethics Office, following the same regulations as it strives to ensure that corporate behavior follows a law-abiding spirit.

The Group has also established the Global Environment Committee, the Comprehensive Safety Action Headquarters, and the Human Rights Committee (directly controlled since April 2004), under the direct control of the Executive Officers' Committee, with the executive in charge of each committee serving as its respective chairperson. This structure is intended to deepen compliance, enhance environmental measures, strengthen safety measures such as prevention of operational and industrial accidents, and address crucial elements regarding human rights. All related divisions and sections assist these committees with their activities, as Cosmo Oil makes a concerted effort with regard to the environment, safety and human rights.

d) Appointment of support staff for auditors

Auditors are provided with full-time staff in order to enhance the auditing function.

e) Operational structure

The Board of Directors is the supreme body with regard to decision making, operations and auditing. As a support structure for the Board of Directors, and in order to separate and strengthen the auditing of management and operational functions, Cosmo Oil abolished the former Executive Committee, and established the Executive Officers' Committee (effective July 2004).

Also, auditors are organized under the Board of Auditors, and auditing is strengthened by having auditors sit on the Board of Directors, Executive Officers' Committee and other management committees. Cosmo Oil's accounting auditor is KPMG AZSA & Co. Furthermore, as part of its internal structure Cosmo Oil maintains an Internal Auditing Office, which conducts audits of the efficiency and legal compliance of operations, helping to enhance the auditing function with concrete advice and council aimed at improving operations. Advice is also solicited from a number of legal advisors, ensuring strict compliance.

2. MEASURES DURING FISCAL 2004

In order to strengthen compliance among employees, a Management Vision Card was distributed to all staff members, and a perception study on corporate ethics conducted as part of the awareness program. In terms of risk management, each department and office conducted a clarification and evaluation of its risks, and Crisis Management Regulations (April 2004) were formulated based on the results. Cosmo Oil considers the recent incident in which customer information from Cosmo The Card was leaked by the system development outsource company to be extremely serious, and will strive to further strengthen its crisis management to regain trust and prevent further incidents, working to ensure good-faith information disclosure.

Also, in April 2004 the Environmental Affairs Office was renamed the CSR & Environmental Affairs Office, strengthening the structure that supports Cosmo Oil in terms of the environment, compliance, safety, human rights and many other areas, as it fulfills its responsibilities as a member of society.

BOARD OF DIRECTORS

CHAIRMAN
KEIICHIRO OKABE*

PRESIDENT
YAICHI KIMURA*

SENIOR MANAGING DIRECTOR
KEIZO MORIKAWA
(Responsible for Corporate Planning Dept., Accounting Dept., Sales Control Dept., Wholesales Dept., Retail Marketing Dept. and Wholesales Marketing Dept.)

MANAGING DIRECTORS
MASAHIDE FURUZONO
(Responsible for R&D Dept., Demand & Supply Coordination Dept., Refining & Technology Dept. and Safety & Environment Control Dept.)

KENJI HOSAKA
(Responsible for Personnel Dept., Finance Dept. and International Dept.)

NAOMASA KONDO
(Responsible for Information System Planning Dept. and Project Development Dept.)

MICHINORI URIU
(Responsible for Internal Auditing Office, General Affairs Dept., Distribution Dept. and Purchasing Center)

SHUNSUKE TORIGOE
(Responsible for Affiliate Relations Dept., Internet Business Dept. and Industrial Fuel Marketing Dept.)

*Representative Director

(From left to right)
Michinori Uriu,
Kenji Hosaka,
Keizo Morikawa,
Keiichiro Okabe,
Yaichi Kimura,
Masahide Furuzono,
Naomasa Kondo,
Shunsuke Torigoe

DIRECTORS
TOSHINORI TSUJIUCHI
(General Manager, Retail Marketing 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, Tokyo Branch Office)

MASATOSHI SAWADA
(General Manager, Yokkaichi Refinery)

HIDEO MATSUSHITA
(General Manager, Secretariat)

TAKASHI YASHIMA
(General Manager, Chiba Refinery)

KANESADA SUFU
(General Manager, Affiliate Relations Dept.)

KENSUKE SUZUKI
(General Manager, Corporate Planning Dept.)

CORPORATE AUDITORS
SUSUMU EDA
YOSHIHISA MATSUMIYA
MAKOTO SUZUKI
HIROKAZU ANDO**

AUDITOR
HAJIME MIYAMOTO**

**Independent Auditor
(As of June 29, 2004)

ORGANIZATION CHART

(As of July 1, 2004)

- General Meeting of Shareholders
- Board of Directors
- Board of Auditors
- Executive Officers' Committee
- Representative Directors
- Corporate Ethics Committee

HEAD OFFICE

- Internal Auditing Office
- Secretariat
- Corporate Planning Dept.
- Information System Planning Dept.
- Project Development Dept.
- R & D Dept.
- Affiliate Relations Dept.
- Internet Business Dept.
- General Affairs Dept.
- Personnel Dept.
- Accounting Dept.
- Finance Dept.
- Sales Control Dept.
- Wholesales Dept.
- Retail Marketing Dept.
- Wholesales Marketing Dept.
- Industrial Fuel Marketing Dept.
- Demand & Supply Coordination Dept.
- Distribution Dept.
- International Dept.
- Refining & Technology Dept.
- Safety & Environment Control Dept.
- Purchasing Center

- CSR & Environmental Affairs Office
- Public Relations Office
- Card Center
- Cogeneration Center
- ALA Marketing Center

- Corporate Ethics Office
- Yokohama Office
- Personnel Affairs Service Center

- Sales Training Center
- Customer Center

- Distribution Terminal
- Oil Depot
- Fuel Oil Order Center
- Abu Dhabi Office
- China Office
- International Cooperation Center

BRANCH OFFICES

- Sapporo Branch Office
- Sendai Branch Office
- Tokyo Branch Office
- Nagoya Branch Office
- Osaka Branch Office
- Hiroshima Branch Office
- Takamatsu Branch Office
- Fukuoka Branch Office

REFINERIES

- Chiba Refinery
- Yokkaichi Refinery
- Sakai Refinery
- Sakaide Refinery

RESEARCH INSTITUTE

- Research and Development Center

›FINANCIAL SECTION

CONSOLIDATED 11-YEAR SUMMARY

Cosmo Oil Company, Limited and its Consolidated Subsidiaries Years ended March 31

	Millions of yen				
	1994	1995	1996	1997	1998
FOR THE YEAR:					
Net sales	¥1,609,074	¥1,588,003	¥1,556,171	¥1,729,495	¥1,680,478
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	1,374,891	1,359,869	1,350,743	1,508,186	1,473,349
Selling, general and administrative expenses	162,638	177,552	173,359	185,900	179,228
Operating income	71,545	50,582	32,069	35,409	27,901
Income (loss) before income taxes and minority interests	46,167	35,088	14,473	18,060	14,466
Net income (loss)	8,697	13,065	6,545	8,839	5,340
Depreciation and amortization	36,049	36,144	37,700	35,738	34,228
Capital expenditures	47,542	51,549	41,613	31,021	34,175
Research and development costs	N.A.	N.A.	N.A.	N.A.	N.A.
Cash flows from operating activities	53,914	47,525	62,798	(25,553)	64,558
Cash flows from investing activities	(31,520)	(35,697)	(55,764)	13,972	(59,532)
Cash flows from financing activities	(9,943)	(31,633)	(584)	2,065	(5,295)
AT YEAR-END:					
Total shareholders' equity	158,337	183,472	185,836	189,790	190,716
Total assets	1,239,141	1,234,897	1,286,000	1,287,172	1,277,022
Interest-bearing debt	663,745	640,083	645,297	654,233	652,769
	Yen				
AMOUNTS PER SHARE:					
Net income (loss) (Note)	¥ 14.98	¥ 21.12	¥ 10.36	¥ 13.99	¥ 8.45
Cash dividends	8.00	8.00	8.00	8.00	8.00
Shareholders' equity	266.62	290.43	294.18	300.44	301.91
RATIOS:					
Return on equity (ROE) (%)	5.9	7.6	3.5	4.7	2.8
Return on assets (ROA) (%)	0.7	1.1	0.5	0.7	0.4
Interest-bearing debt ratio (%)	53.6	51.8	50.2	50.8	51.1

Notes: 1. U.S. dollar amounts in this report have been translated, for convenience only, at the exchange rate of ¥105.69=$1.00, the prevailing rate at March 31, 2004.
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)
1999	2000	2001	2002	2003	2004	2004
¥1,443,457	¥1,584,678	¥1,845,842	¥1,813,838	¥1,902,768	¥1,916,278	$18,131,119
N.A.	N.A.	N.A.	1,746,659	1,830,940	1,862,554	17,622,802
N.A.	N.A.	N.A.	10,856	9,773	12,950	122,528
N.A.	N.A.	N.A.	56,323	62,055	40,774	385,789
1,265,443	1,427,640	1,664,757	1,659,438	1,754,853	1,758,858	16,641,669
155,154	140,373	144,503	132,343	123,748	132,174	1,250,582
22,860	16,665	36,582	22,057	24,167	25,246	238,868
4,351	13,313	22,460	(1,881)	12,966	17,592	166,449
839	4,841	8,674	(5,190)	3,426	8,179	77,387
21,773	23,436	24,672	23,492	22,843	23,632	223,597
31,325	22,593	17,108	25,430	24,132	36,573	346,040
N.A.	4,567	3,566	3,805	3,867	3,558	33,664
17,718	(42,698)	58,824	76,646	(26,975)	101,827	963,450
(17,806)	13,538	27,348	(13,944)	(12,811)	(32,709)	(309,481)
(14,592)	31,271	(87,229)	(88,546)	10,127	(7,679)	(72,656)
186,496	179,536	177,773	194,303	193,595	204,806	1,937,799
1,229,285	1,294,843	1,319,960	1,242,171	1,246,730	1,260,092	11,922,528
641,562	687,563	610,686	548,653	562,649	559,259	5,291,503
			Yen			U.S. dollars (Note)
¥ 1.33	¥ 7.76	¥ 13.81	¥ (8.24)	¥ 5.42	¥ 12.95	$0.12
6.00	6.00	6.00	6.00	6.00	6.00	0.06
295.23	286.75	282.09	308.65	306.67	324.43	3.07
0.4	2.6	4.9	—	1.8	4.1	
0.1	0.4	0.7	—	0.3	0.7	
52.2	53.1	46.3	44.2	45.1	44.4	

OVERVIEW

In fiscal 2004, ended March 31, 2004, a warm winter and other factors discouraged oil demand in Japan, reducing the sales volume of oil products such as kerosene, diesel fuel and heavy fuel oil A, while the sales volume of gasoline and heavy fuel oil C was unaffected and increased strongly as a result. Crude oil prices, which began the year at $23/barrel for Dubai crude, continued to trade between $24-$28 per barrel until November, when OPEC decided to reduce production. Thereafter, Dubai crude oil traded at more than $28/barrel, peaking at $31/barrel in March 2004. In foreign exchange markets, the yen began the fiscal year trading around ¥121/US$1, and continued to slide downward to ¥103/US$1 by the end of the fiscal year.

Fiscal 2004 was the initial year of our Medium-Term Management Plan, which will end in fiscal 2006. Under this plan, we are focusing all our efforts on rationalization and value creation throughout the Cosmo Oil Group to strengthen management.

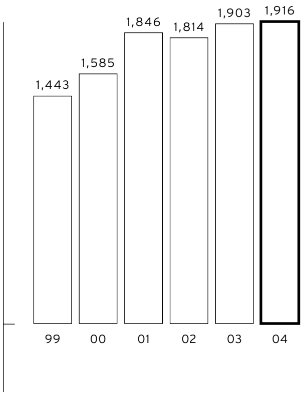
Consolidated net sales rose ¥13.5 billion, or 0.7% year on year, to ¥1,916.3 billion (US$18,131.1 million) for fiscal 2004, while net income of ¥8.2 billion (US$77.4 million) was posted, marking an improvement of ¥4.8 billion.

SALES BY SEGMENT

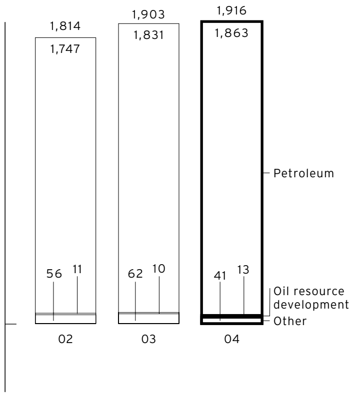
> PETROLEUM

During fiscal 2004, demand for oil products was mixed. Demand for gasoline and heavy fuel oil C increased steadily, while demand for kerosene, diesel oil and heavy fuel oil A declined, adversely affected by a fall in domestic demand due to the unusually warm winter. In addition, market prices for oil products improved along with the upward trend in crude oil prices, reflecting efforts to shift higher costs onto consumers. On the whole, however, these efforts did not result in reasonable market prices corresponding to the higher cost of crude oil. As a result, total sales for the segment, including inter-segment sales, rose ¥30.5 billion, or 1.7%, to ¥1,863.1 billion (US$17,627.9 million), reflecting higher selling prices. Operating income recovered, supported by value creation and rationalization measures in the Medium-Term Management Plan, which commenced in fiscal 2004. An improvement in market prices from the pre-

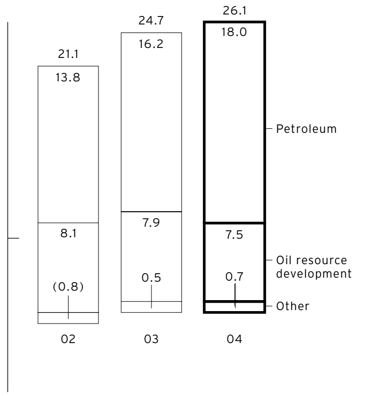
Net sales
(billions of yen)



Segment sales (net)
(billions of yen)



Segment operating income (loss)
(billions of yen)



vious fiscal year also contributed to higher earnings. However, the impact of inventory valuation under the gross average method pushed up the cost of sales, adversely affecting operating income. Consequently, operating income for the petroleum segment increased ¥1.8 billion, or 10.8%, to ¥18.0 billion (US$169.8 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 declined ¥1.8 billion, or 5.2%, to ¥31.6 billion (US$299.4 million), while operating income decreased ¥0.4 billion, or 5.3%, to ¥7.5 billion (US$71.2 million).

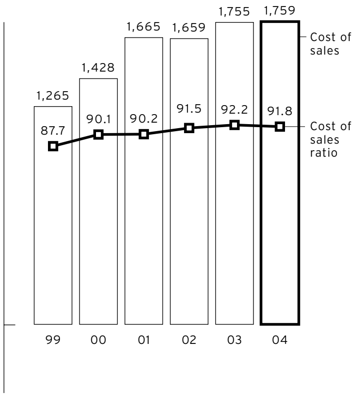
› OTHER

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 ¥7.2 billion, or 9.7%, to ¥66.7 billion (US$631.4 million). However, efforts to rationalize and make operations more efficient resulted in operating income of ¥0.7 billion (US$6.4 million), an increase of ¥0.1 billion, or 25.3%, compared with the previous fiscal year.

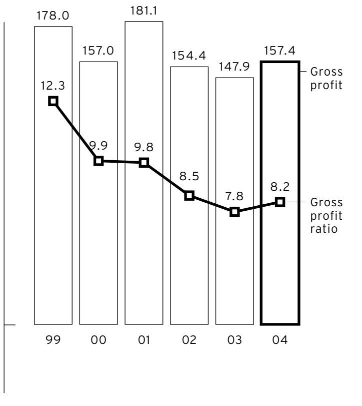
COSTS, EXPENSES AND EARNINGS

On a consolidated basis, the cost of sales increased 0.2% year on year, or ¥4.0 billion, to ¥1,758.9 billion (US$16,641.7 million), while the gross profit ratio improved by 0.4 percentage point to 8.2%. On a non-consolidated basis, the Company achieved reductions of 0.1%, or ¥1.8 billion, in the cost of sales compared with the previous fiscal year. This reflects cost reductions of ¥7.4 billion from a decline in supply costs and ¥21.2 billion from lower sales volume, which was mostly offset by a net increase in costs of ¥26.8 billion from inventory valuations pushing up the cost of sales by ¥9.5 billion in the fiscal year under review, while they lowered the cost of sales by ¥17.3 billion in the previous fis-

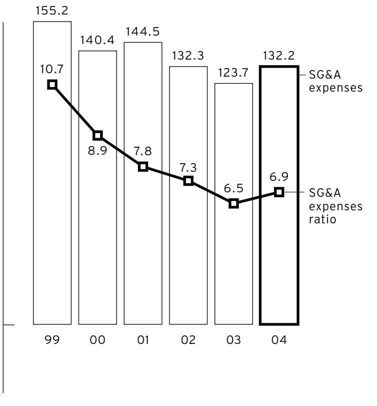
Cost of sales and cost of sales ratio
(billions of yen) (%)



Gross profit and gross profit ratio
(billions of yen) (%)



SG&A expenses and SG&A expenses ratio
(billions of yen) (%)

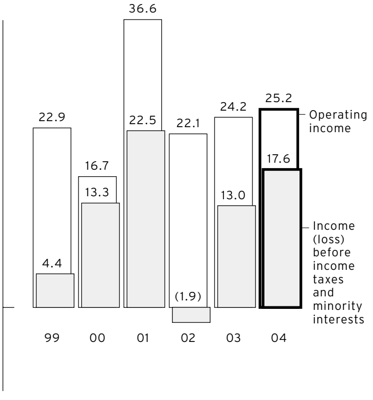


cal year. At consolidated subsidiaries, the cost of sales increased ¥5.8 billion from the previous fiscal year, as these companies changed the classification of logistics expense and subcontracting work expense from cost of sales to SG&A expenses, effectively lowering the cost of sales by ¥11.0 billion and increasing SG&A expenses by ¥8.4 billion. As a result, operating income was not affected by this accounting change, and selling, general and administrative (SG&A) expenses increased 6.8% to ¥132.2 billion (US$1,250.6 million). The SG&A ratio to net sales increased by 0.4 percentage point to 6.9%. Excluding the impact of the change in accounting method, SG&A expenses would have declined 2.1%, or ¥2.6 billion.

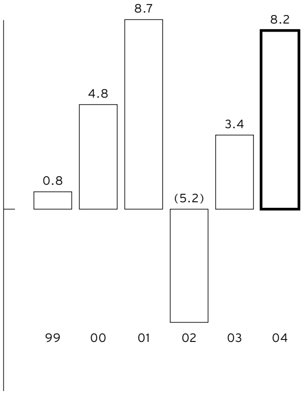
Operating income rose 4.5%, or ¥1.1 billion, to ¥25.2 billion (US$238.9 million) from the previous fiscal year, reflecting an increase of 5.9%, or ¥0.7 billion, in non-consolidated operating income. Although operating income was adversely affected by warm winter temperatures lowering sales volume by ¥1.7 billion, this decline was more than offset by an earnings improvement of ¥14.5 billion under the Medium-Term Management Plan from rationalization effects of ¥6.8 billion and value creation of ¥7.7 billion, as well as an increase of ¥14.7 billion from better market prices. These factors contributed ¥27.5 billion to non-consolidated operating income, but were undermined by inventory revaluation effects of ¥26.8 billion (¥17.3 billion in fiscal 2003 and negative ¥9.5 billion in fiscal 2004) in cost of sales. As a result, operating income edged up ¥0.7 billion overall on a non-consolidated basis. Consolidated subsidiaries contributed ¥0.4 billion to operating income.

Net other expenses declined by ¥3.5 billion to ¥7.7 billion (US$72.4 million), reflecting a significant decline in write-down of marketable securities and investments in securities, and an increase in equity in earnings of affiliates. Net interest expense declined 8.6%, or ¥1.0 billion, to ¥11.1 billion due to a decline in debt interest rates and interest payments in line with the early repayment of corporate bonds. Net loss on foreign currency exchange was ¥18 million in fiscal 2004, compared with a net gain of ¥0.4 billion in fiscal 2003. Equity in earnings of affiliates totaled a gain of ¥2.7 billion, compared with ¥1.0 billion in the previous fiscal year, owing to an increase in profits from better market prices at petrochemical subsidiaries. Net extraordinary expenses decreased 67.8%, or ¥3.9 billion, compared with the previous fiscal year, reflecting the absence of a ¥4.3 billion write-down of marketable securities and invest-

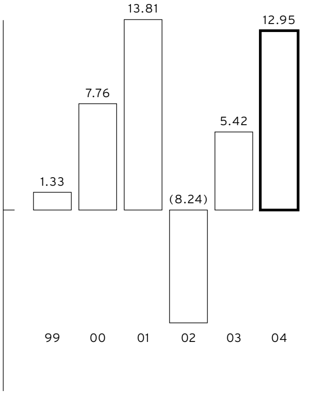
Operating income and income (loss) before income taxes and minority interests
(billions of yen)



Net income (loss)
(billions of yen)



Net income (loss) per share
(yen)



ments in securities recorded in fiscal 2003, the absence of a gain of ¥1.1 billion on contribution of securities to retirement benefit trust recorded in fiscal 2003, and an increase of ¥0.5 billion in net loss on sale and disposal of property, plant and equipment.

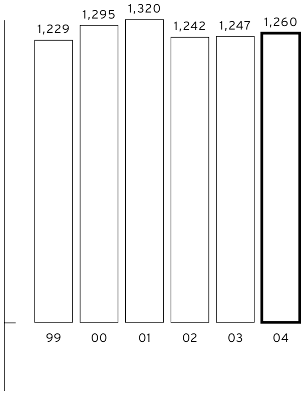
Reflecting the above, the Company recorded income before income taxes and minority interests of ¥17.6 billion (US$166.4 million), representing an increase of 35.7%, or ¥4.6 billion, compared with the previous fiscal year. As a result, net income totaled ¥8.2 billion (US$77.4 million), an increase of ¥4.8 billion compared with the previous fiscal year. Net income per share was ¥12.95 (US$0.12), compared with net income per share of ¥5.42 in the previous fiscal year.

FINANCIAL POSITION

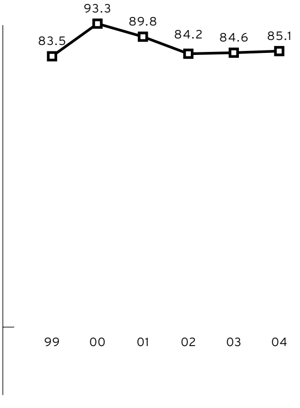
The Company is working to improve its balance sheet as part of its strategy of increasing the efficiency of total capital employed. As of March 31, 2004, total assets were ¥1,260.1 billion (US$11,922.5 million), an increase of 1.1%, or ¥13.4 billion year on year. Total current assets rose 0.6% to ¥560.8 billion (US$5,306.5 million). Cash and deposits climbed by ¥63.3 billion to ¥99.5 billion, owing to the deferred payment of gasoline excise and petroleum taxes since the due date fell on a holiday. Notes and accounts receivable, trade decreased by ¥28.2 billion. The decrease of ¥24.1 billion in other current assets reflected a decrease in accrued revenues due to crude oil consumption debit and credit transaction settlements, which also caused a decline in accounts payable under current liabilities. Net property, plant and equipment grew by ¥5.9 billion to ¥561.5 billion (US$5,312.3 million), mainly owing to a ¥30.7 billion increase in machinery and equipment, which was partially offset by a ¥15.0 billion decline in construction in progress. In other assets, investments in securities rose by ¥9.5 billion as book value increased along with a rise in general stock prices.

Excluding minority interests, total liabilities increased by ¥2.0 billion to ¥1,030.4 billion. As with total assets, the deferred payment of gasoline excise and petroleum taxes increased accrued expenses and other current liabilities, while decreasing notes and accounts payable. Current liabilities increased slightly to ¥659.4 billion (US$6,239.0 million). Notes and accounts payable, trade fell by ¥35.2 billion, which was partially offset by an increase of ¥33.7 bil-

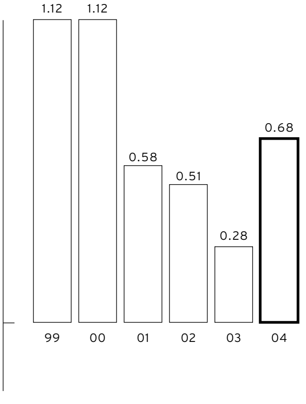
Total assets
(billions of yen)



Current ratio
(%)



Liquidity
(times)



lion in income, excise and other taxes payable. Total shareholders' equity expanded by ¥11.2 billion, or 5.8%, to ¥204.8 billion (US$1,937.8 million), mainly as the result of net unrealized gains on securities of ¥6.6 billion and an increase of ¥4.3 billion in retained earnings. The shareholders' equity ratio was 16.3%.

Capital expenditures totaled ¥36.6 billion, compared with ¥24.1 billion in the previous fiscal year. Capital expenditures in the petroleum segment were ¥28.4 billion. Capital expenditures in the oil resource development segment were ¥8.7 billion.

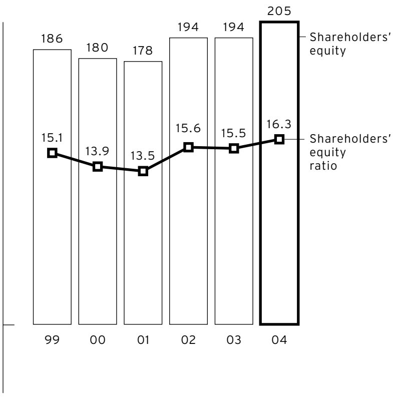
CASH FLOWS

Cash and cash equivalents at the end of the fiscal year totaled ¥104.5 billion (US$988.9 million), ¥60.7 billion higher 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 ¥0.4 billion. Net cash provided by operating activities was ¥101.8 billion (US$963.5 million), compared with net cash used in operating activities of ¥27.0 billion in the previous fiscal year. Main sources of cash in the fiscal year under review included a decrease in notes and accounts receivable, a decrease in other current assets and an increase in other current liabilities.

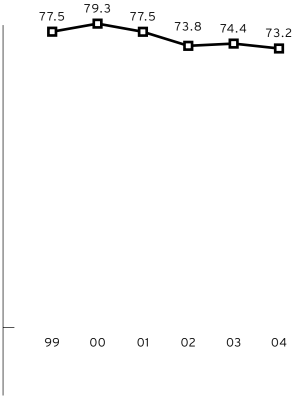
Net cash used in investing activities totaled ¥32.7 billion (US$309.5 million), compared with ¥12.8 billion in the previous fiscal year. Cash outflows from payments for purchases of property, plant and equipment, payments for purchases of marketable securities and investments in securities, as well as payments for intangible assets and deferred charges far exceeded cash inflows from proceeds from sale or disposal of property, plant and equipment as well as proceeds from sale of marketable securities and investments in securities.

Net cash used in financing activities was ¥7.7 billion (US$72.7 million), compared with net cash provided by financing activities of ¥10.1 billion in the previous fiscal year. This cash outflow was mainly due to a decrease in short-term loans payable, repayments for long-term loans payable and redemptions of bonds, which more than offsetting proceeds from long-term loans payable.

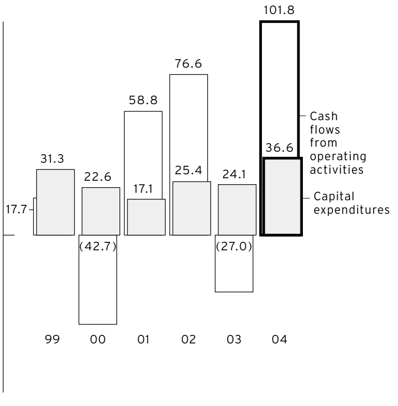
Shareholders' equity and shareholders' equity ratio
(billions of yen) (%)



Debt-to-total capital ratio
(%)



Cash flows from operating activities and capital expenditures
(billions of yen)



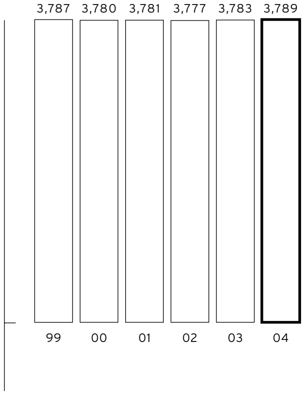
DIVIDENDS

Cosmo Oil's basic dividend policy is to set dividend levels commensurate with performance. The Company determines dividend levels giving due consideration to 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 ($0.06) per share, unchanged from the previous fiscal year. Consequently, the dividends paid to shareholders' equity ratio decreased slightly to 1.85% from 1.95% in the previous year.

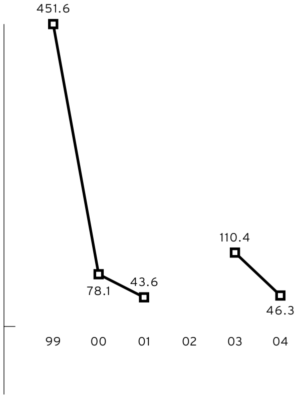
OUTLOOK

Cosmo Oil's Medium-Term Management Plan (from fiscal 2004 through fiscal 2006) provides specific goals for improving earnings through rationalization and value creation, 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 ¥111.0 billion yen over three years, which will be funded by internal cash flows consisting of three-year cumulative net income of ¥69.8 billion and three-year cumulative depreciation and amortization of ¥79.3 billion.

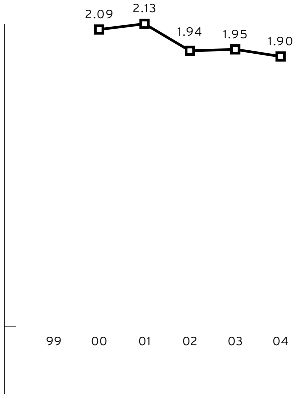
Cash dividends
(millions of yen)



Payout ratio
(%)



Dividends on equity
(%)



BUSINESS RISK

The Cosmo Oil Group's business performance and financial position are exposed to the following risks. Forward-looking statements are based on information current as of June 29, 2004.

CHANGES IN DEMAND

Gasoline, kerosene and diesel oil, which make up the main portion of the Cosmo Oil Group's revenues, are strongly influenced by consumer demand. Moreover, demand trends in the petrochemical industry affect naphtha, transport industry impact diesel oil, and the electric power and marine transport industrial influence fuel oil. Accordingly, the Cosmo Oil Group's sales volume may be affected by changes in demand depending on economic conditions.

Depending on the weather, demand also changes for gasoline, diesel oil, kerosene and fuel oil, and this may adversely affect the sales volume of the Cosmo Oil Group.

CHANGES IN CRUDE OIL PRICES

Crude oil prices change significantly with demand and production trends. Demand is largely determined by consumption in the United States and fast-growing countries in Asia, especially China. Production is largely controlled by OPEC nations, but attention should be paid to the production volumes of non-OPEC nations as well. In addition, political instability, such as wars in countries neighboring oil-producing nations, has a significant impact on crude oil prices.

Since crude oil prices make up most of the cost of sales, changes in global demand and oil prices could have a major impact on the Cosmo Oil Group's costs.

The Cosmo Oil Group uses the gross average method to value the fair price of its crude oil stockpiles. As a result, in the event that crude oil prices decline, the Cosmo Oil Group's costs may be affected by changes in crude oil prices, such as a higher cost burden than prevailing market prices.

EXCHANGE RATE FLUCTUATIONS

The Cosmo Oil Group imports oil from overseas, and oil payments are generally denominated in U.S. dollars, so fluctuations in exchange rates cause disparities. The Cosmo Oil Group engages in foreign currency hedging transactions to minimize the adverse effects of fluctuations in exchange rates. Nevertheless, fluctuations in exchange rates may have a negative influence on the costs of the Cosmo Oil Group, such as driving up oil procurement costs amid a strong yen.

MARKET RISK

As mentioned above, the primary cost of the Company's oil products is determined by oil prices and exchange rates on the international market. Meanwhile, sales activities are mainly carried out in Japan, so sales prices are determined based on domestic market conditions. In the event that a gap or time lag is formed between international and domestic market conditions, the Cosmo Oil Group's earnings may be adversely affected.

CHANGES IN INTEREST RATES

In the event that interest on borrowings increases in the future due to changes in interest rates, the Company's interest payments on borrowings may be adversely affected by changes in interest rates, such as higher borrowing costs.

CHANGES IN ASSET VALUE

Based on economic conditions, changes in asset value may negatively impact the earnings of the Cosmo Oil Group, such as the occurrence of valuation losses from a decline in the value of assets held by the Cosmo Oil group, including land and securities.

IMPACT OF DISASTERS AND ACCIDENTS

Since oil refineries handle large volumes of flammable material, Cosmo Oil takes various safety measures to prevent accidents caused by human error and to prevent workplace injuries. However, unforeseen accidents and natural disasters such as earthquakes may cause operations to halt. Accidents involving storage tanks, service stations, tanker trucks may adversely affect the earnings of the Cosmo Oil Group.

MANAGEMENT OF INDIVIDUAL INFORMATION

In managing and handling a customer's personal information, Cosmo Oil takes every precaution to protect their privacy through internal rules and regulations and other measures. In the event that individual information is leaked, however, Cosmo Oil may lose customer trust and tarnish its brand name. This may lead to a detrimental impact on the sales volume and earnings of the Cosmo Oil Group.

CONSOLIDATED BALANCE SHEETS

Cosmo Oil Company, Limited and its Consolidated Subsidiaries March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
ASSETS			
Current assets:			
Cash and deposits (Notes 4 and 14)	¥ 36,185	¥ 99,451	$ 940,969
Marketable securities (Notes 4, 9 and 14)	7,425	8,412	79,591
Notes and accounts receivable, trade	208,858	180,687	1,709,594
Less allowance for doubtful accounts	(528)	(590)	(5,582)
	208,330	180,097	1,704,012
Inventories (Notes 2 and 3)	185,461	176,889	1,673,659
Other current assets (Note 12)	120,059	95,994	908,260
Total current assets	557,460	560,843	5,306,491
Property, plant and equipment (Notes 6 and 14):			
Land	349,958	350,170	3,313,180
Buildings and structures	363,631	369,199	3,493,225
Machinery and equipment	331,376	362,057	3,425,650
Construction in progress	28,779	13,771	130,297
	1,073,744	1,095,197	10,362,352
Less accumulated depreciation	(518,154)	(533,742)	(5,050,071)
Net property, plant and equipment	555,590	561,455	5,312,281
Other assets:			
Investments in securities (Notes 9 and 14)	73,177	82,674	782,231
Long-term loans receivable	9,874	9,561	90,463
Other (Note 12)	54,325	48,631	460,128
Less allowance for doubtful accounts	(2,800)	(3,072)	(29,066)
Reserve for loss on investments in unconsolidated subsidiaries and affiliates	(896)	—	—
Total other assets	133,680	137,794	1,303,756
Total	¥1,246,730	¥1,260,092	$11,922,528

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans and current maturities of long-term debts (Notes 5 and 14)	¥ 248,367	¥ 244,289	$ 2,311,373
Notes and accounts payable, trade (Note 14)	221,791	186,569	1,765,247
Income, excise and other taxes payable	87,499	121,177	1,146,532
Accrued expenses and other current liabilities (Note 12)	101,566	107,367	1,015,868
Total current liabilities	659,223	659,402	6,239,020
Long-term debts, less current maturities (Note 5)	314,282	314,970	2,980,131
Deferred tax for revaluation reserve for land (Note 6)	10,272	10,593	100,227
Retirement and severance benefits (Note 11)	4,083	4,516	42,729
Other long-term liabilities (Notes 12 and 14)	40,502	40,918	387,150
Minority interests	24,773	24,887	235,472
Contingencies (Note 8)			
Shareholders' equity:			
Common stock			
Authorized—1,700,000,000 shares;			
Issued—631,705,087 shares	51,887	51,887	490,936
Capital surplus			
Additional paid-in capital	34,092	34,092	322,566
Retained earnings	93,568	97,883	926,133
Revaluation reserve for land (Note 6)	15,528	15,446	146,144
Net unrealized gains (losses) on securities	(658)	6,602	62,466
Foreign currency translation adjustments	(746)	(1,039)	(9,831)
Less treasury stock, at cost	(76)	(65)	(615)
Total shareholders' equity	193,595	204,806	1,937,799
Total	¥1,246,730	¥1,260,092	$11,922,528

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Cosmo Oil Company, Limited and its Consolidated Subsidiaries Years ended March 31, 2002, 2003 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2003	2004	2004
NET SALES (Note 13)	¥1,813,838	¥1,902,768	¥1,916,278	$18,131,119
COST OF SALES (Note 2)	1,659,438	1,754,853	1,758,858	16,641,669
Gross profit	154,400	147,915	157,420	1,489,450
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 2)	132,343	123,748	132,174	1,250,582
Operating income (Note 13)	22,057	24,167	25,246	238,868
OTHER INCOME (EXPENSES):				
Interest and dividend income	3,192	1,906	1,559	14,751
Interest expenses (Note 5)	(14,220)	(12,928)	(11,867)	(112,281)
Foreign currency exchange gain (loss), net	2,373	426	(18)	(170)
Net gain (loss) on sale and disposal of property, plant and equipment	661	(1,315)	(1,864)	(17,636)
Equity in earnings of affiliates	268	973	2,717	25,707
Write-down of marketable securities and investments in securities	(15,484)	(4,587)	(283)	(2,678)
Gain on contribution of securities to retirement benefit trust	—	1,120	—	—
Gain on sale of investments in securities	3,392	246	1,321	12,499
Loss on sale of investments in securities	(2,763)	(102)	(69)	(653)
Other, net	(1,357)	3,060	850	8,042
	(23,938)	(11,201)	(7,654)	(72,419)
Income (loss) before income taxes and minority interests	(1,881)	12,966	17,592	166,449
INCOME TAXES:				
Current	7,122	6,981	11,375	107,626
Deferred (Note 12)	(6,262)	1,139	(2,641)	(24,988)
	860	8,120	8,734	82,638
Income (loss) before minority interests	(2,741)	4,846	8,858	83,811
MINORITY INTERESTS	(2,449)	(1,420)	(679)	(6,424)
NET INCOME (LOSS)	¥ (5,190)	¥ 3,426	¥ 8,179	$ 77,387

	Yen			U.S. dollars (Note 1)
EARNINGS PER SHARE:				
Basic	¥ (8.24)	¥ 5.42	¥ 12.95	$ 0.12
Diluted	—	—	12.74	0.12
Cash dividends (Note 15)	6.00	6.00	6.00	0.06

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, 2002, 2003 and 2004

	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, 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 6)	—	—	—	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 6)	—	—	—	(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)
Net income for the year	—	—	—	8,179	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(293)	—
Cash dividends paid	—	—	—	(3,792)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(13)	—	—	—	—
Increase resulting from increase in consolidated subsidiaries	—	—	—	73	—	—	—	—
Increase resulting from increase in affiliates on equity method	—	—	—	—	—	—	—	—
Increase due to adjustment to land as a result of revaluation of land (Note 6)	—	—	—	(37)	37	—	—	—
Changes in effective tax rate	—	—	—	—	(235)	—	—	—
Adjustment to revaluation reserve for land	—	—	—	—	116	—	—	—
Increase resulting from mergers	—	—	—	63	—	—	—	—
Decrease resulting from mergers	—	—	—	(152)	—	—	—	—
Increase due to revaluation of available-for-sale securities	—	—	—	—	—	7,260	—	—
Loss on retirement of treasury stock	—	—	—	(6)	—	—	—	—
Sales of treasury stock, net	—	—	—	—	—	—	—	11
BALANCE AT MARCH 31, 2004	631,705	¥51,887	¥34,092	¥97,883	¥15,446	¥6,602	¥(1,039)	¥ (65)

	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, 2003	$490,936	$322,566	$885,306	$146,920	$(6,226)	$(7,058)	$(719)
Net income for the year	—	—	77,387	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(2,773)	—
Cash dividends paid	—	—	(35,879)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	(123)	—	—	—	—
Increase resulting from increase in consolidated subsidiaries	—	—	691	—	—	—	—
Increase resulting from increase in affiliates on equity method	—	—	—	—	—	—	—
Increase due to adjustment to land as a result of revaluation of land (Note 6)	—	—	(350)	350	—	—	—
Changes in effective tax rate	—	—	—	(2,224)	—	—	—
Adjustment to revaluation reserve for land	—	—	—	1,098	—	—	—
Increase resulting from mergers	—	—	596	—	—	—	—
Decrease resulting from mergers	—	—	(1,438)	—	—	—	—
Increase due to revaluation of available-for-sale securities	—	—	—	—	68,692	—	—
Loss on retirement of treasury stock	—	—	(57)	—	—	—	—
Sales of treasury stock, net	—	—	—	—	—	—	104
BALANCE AT MARCH 31, 2004	$490,936	$322,566	$926,133	$146,144	$62,466	$(9,831)	$(615)

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, 2002, 2003 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2003	2004	2004
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income (loss) before income taxes and minority interests	¥ (1,881)	¥ 12,966	¥ 17,592	$ 166,449
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	23,492	22,843	23,632	223,597
Amortization of consolidation goodwill	138	147	1	9
Increase (decrease) in allowance for doubtful accounts	1,658	(1,841)	233	2,205
Interest and dividend income	(3,192)	(1,906)	(1,559)	(14,751)
Interest expense	14,220	12,928	11,867	112,281
Equity in earnings of affiliates	(268)	(973)	(2,717)	(25,707)
Net loss (gain) on sale or disposal of property, plant and equipment	(661)	1,315	2,315	21,904
Write-down of marketable securities and investments in securities	15,484	4,587	283	2,678
Gain on contribution of securities to retirement benefit trust	—	(1,120)	—	—
Transfer of securities to retirement benefit trust	—	5,218	—	—
Decrease (increase) in notes and accounts receivable	62,189	(14,568)	28,541	270,044
Decrease (increase) in inventories	10,622	(5,791)	8,576	81,143
Increase (decrease) in notes and accounts payable	(16,146)	23,110	(35,414)	(335,074)
Increase (decrease) in other allowance reserves	1,480	(487)	—	—
Decrease (increase) in other current assets	1,691	(33,072)	24,781	234,469
Increase (decrease) in other current liabilities	(8,112)	(34,774)	36,958	349,683
Other, net	(3,892)	2,416	5,988	56,656
Subtotal	96,822	(9,002)	121,077	1,145,586
Interest and dividend received	1,820	1,194	1,649	15,602
Interest paid	(14,260)	(12,720)	(11,884)	(112,442)
Income taxes paid	(7,736)	(6,447)	(9,015)	(85,296)
Net cash provided by (used in) operating activities	76,646	(26,975)	101,827	963,450
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for purchases of property, plant and equipment	(21,742)	(19,626)	(27,813)	(263,156)
Proceeds from sale or disposal of property, plant and equipment	9,332	11,062	2,069	19,576
Payments for purchases of marketable securities and investments in securities	(14,609)	(9,113)	(3,840)	(36,333)
Proceeds from sale of marketable securities and investments in securities	18,704	6,492	5,545	52,465
Payments for intangible assets and deferred charges	(3,885)	(3,297)	(8,232)	(77,888)
Decrease (increase) in short-term loans receivable	1,831	(373)	(482)	(4,561)
Payments for long-term loans receivable	(1,952)	(573)	(2,193)	(20,749)
Proceeds from long-term loans receivable	2,396	1,276	1,690	15,990
Payments for factoring	(3,866)	—	—	—
Proceeds from factoring	—	1,571	498	4,712
Other, net	(153)	(230)	49	463
Net cash provided by (used in) investing activities	(13,944)	(12,811)	(32,709)	(309,481)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in short-term loans payable	(66,298)	7,887	(16,266)	(153,903)
Proceeds from long-term loans payable	30,430	63,264	116,159	1,099,054
Repayments for long-term loans payable	(37,462)	(58,918)	(57,200)	(541,205)
Issuance of bonds	—	19,876	—	—
Redemptions of bonds	(10,200)	(16,071)	(46,100)	(436,181)
Redemptions of convertible bonds	(1,332)	(1,924)	(18)	(170)
Cash dividends paid	(3,774)	(3,777)	(3,792)	(35,879)
Cash dividends paid for minority shareholders	—	—	(513)	(4,854)
Proceeds from issuing shares for minority shareholders	—	—	183	1,731
Other, net	90	(210)	(132)	(1,249)
Net cash provided by (used in) financing activities	(88,546)	10,127	(7,679)	(72,656)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,078	(845)	(1,171)	(11,079)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,766)	(30,504)	60,268	570,234
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	97,788	74,000	43,810	414,514
CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES	934	283	249	2,356
CASH AND CASH EQUIVALENTS FROM MERGERS	44	31	193	1,826
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	¥ 74,000	¥ 43,810	¥ 104,520	$ 988,930

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 translations 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, 2004, which was ¥105.69 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, 2002, 2003 and 2004 were as follows:

	2002	2003	2004
Consolidated subsidiaries	24	27	31
Subsidiaries using the equity method	9	37	38
Affiliates using the equity method	3	5	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.

Assets and liabilities, revenue, and 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

Allowances 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 gross 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 ($229,180 thousand), has been 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.

(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 reached 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 5).

(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 ($946 thousand). Such long-term and large engineering contracts are recognized by the percentage of completion method.

(18) EARNING PER SHARE

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

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

(20) RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2004 presentation.
These changes had no impact on previously reported results of operations or shareholders' equity.

2 CHANGES IN ACCOUNTING POLICIES

(1) 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 ($946 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 ($2,952 thousand) and operating income, income before income taxes and minority interests increased by ¥9 million ($85 thousand), respectively.

The effect of the changes in segment information is described in Note 13.

(2) CHANGE OF THE INVENTORY COSTING METHOD

Effective April 1, 2001, Cosmo Matsuyama Oil changed from the last-in, first out (LIFO) method to the method of costing inventories under which the inventories are stated at cost determined by aggregate average method.

As a result of the change, operating income for the year ended March 31, 2002 decreased by ¥81 million ($766 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 13.

(3) CHANGE OF CLASSIFICATION OF LOGISTICS EXPENSE AND SUBCONTRACTING WORK EXPENSE

For the year ended March 31, 2004 some of the Company's consolidated subsidiaries changed classification of logistics expense and subcontracting work expense from cost of sales to selling, general and administrative expenses.

Changes have been made in order for the group accounting principles to be homogeneous among all consolidated companies.

As a result of the changes, gross profit increased by ¥11,027 million ($104,333 thousand); however, operating income, income before income taxes and minority interests were not affected.

The change did not have any effect on segment information.

3 INVENTORIES

Inventories at March 31, 2003 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Finished products	¥ 49,140	¥ 49,240	$ 465,891
Semi-finished products	29,620	31,981	302,592
Materials—crude oil, auxiliary materials, etc.	51,583	42,588	402,952
Supplies—spare parts, etc.	5,281	5,013	47,431
In-transit crude oil and oil products	43,807	45,140	427,098
Land for sale	1,102	1,102	10,427
Others	4,928	1,825	17,268
Total	¥ 185,461	¥ 176,889	$ 1,673,659

4 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

CASH AND DEPOSITS, AND CASH EQUIVALENTS

Reconciliation between cash and deposits in the consolidated balance sheets with cash and cash equivalents in the consolidated statements of cash flows at March 31, 2003 and 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Cash and deposits	¥ 36,185	¥ 99,451	$ 940,969
ADD:			
Marketable securities	7,425	8,412	79,591
Other current assets	2,054	499	4,722
LESS:			
Deposits with maturities exceeding three months	221	223	2,110
Bonds with maturities exceeding three months included in marketable securities above	1,633	3,619	34,242
Cash and cash equivalents	¥ 43,810	¥ 104,520	$ 988,930

5 SHORT-TERM LOANS AND LONG-TERM DEBT

Included in short-term loans at March 31, 2003 and 2004 were import bills payable and import financing bills payable to banks aggregating ¥3,284 million and ¥1,519 million ($14,372 thousand), respectively. These bills bear interest ranging from 1.72% to 2.43% and that of 1.54% per annum, respectively, and mature in various days, mainly 45 days after issuance. The remaining short-term loans from banks of ¥165,962 million and ¥149,731 million ($1,416,700 thousand), as of March 31, 2003 and 2004, bear interest ranging from 0.20% to 2.28% and from 0.20% to 1.99% 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, 2003 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Short-term loans	¥ 165,962	¥ 149,731	$ 1,416,700
Current maturities of long-term debt	82,405	94,558	894,673
Total	¥ 248,367	¥ 244,289	$ 2,311,373

Long-term debts at March 31, 2003 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Loans from banks, insurance companies and other financial institutions, secured, with interest at 1.0% - 7.5%, due serially through 2015	¥ 276,746	¥ 335,705	$ 3,176,318
1.1% unsecured convertible yen bonds due in 2005	16,541	16,523	156,335
2.8% unsecured straight yen bonds due in 2003	14,600	—	—
3.3% unsecured straight yen bonds due in 2007	9,500	9,500	89,886
3.15% unsecured straight yen bonds due in 2007	7,800	7,800	73,801
2.72% unsecured straight yen bonds due in 2003	2,000	—	—
3.08% unsecured straight yen bonds due in 2004	4,000	—	—
3.50% unsecured straight yen bonds due in 2005	4,200	4,200	39,739
3.10% unsecured straight yen bonds due in 2005	4,700	4,700	44,470
2.34% unsecured straight yen bonds due in 2003	4,500	—	—
2.70% unsecured straight yen bonds due in 2004	4,400	—	—
3.00% unsecured straight yen bonds due in 2006	4,500	4,500	42,577
2.45% unsecured straight yen bonds due in 2004	4,700	—	—
2.83% unsecured straight yen bonds due in 2005	4,700	—	—
3.05% unsecured straight yen bonds due in 2006	3,800	3,800	35,954
2.86% unsecured straight yen bonds due in 2005	2,600	—	—
2.50% unsecured straight yen bonds due in 2004	4,600	—	—
2.84% unsecured straight yen bonds due in 2005	2,800	2,800	26,492
1.34% unsecured straight yen bonds due in 2007	10,000	10,000	94,616
1.60% unsecured straight yen bonds due in 2008	10,000	10,000	94,616
	396,687	409,528	3,874,804
Less current maturities	(82,405)	(94,558)	(894,673)
Total	¥ 314,282	¥ 314,970	$ 2,980,131

The aggregate annual maturities of long-term debts at March 31, 2004 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2005	¥ 94,558	$ 894,673
2006	69,271	655,417
2007	45,062	426,360
2008	78,019	738,187
2009 and thereafter	122,618	1,160,167
Total	¥ 409,528	$ 3,874,804

The 1.1% unsecured convertible yen bonds in the original principal amount of ¥30,000 million were issued in March 1994. The bonds are subject to conversion currently at ¥877 ($8.30) for one share of the common stock of the Company from April 1, 1994 to March 30, 2005. At March 31, 2004, 18,850 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 ($69,070 thousand) plus the Company's cumulative net income for the fiscal years following March 31, 1994.

6 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.

Difference between the fair value and carrying amount of the revalued land as of March 31, 2003 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Difference between the fair value and carrying amount of the revalued land	¥ (24,638)	¥ (62,233)	$ (588,826)

7 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, 2002, 2003 and 2004 were ¥4,208 million, ¥4,391 million and ¥4,080 million ($38,603 thousand), respectively.

Total lease obligation as of March 31, 2003 and 2004 with interest portion under such leases was ¥10,690 million and ¥10,499 million ($99,338 thousand), including ¥3,792 million and ¥3,716 million ($35,159 thousand) due within one year. Included in the total lease obligation as of March 31, 2004 is obligation for sub-lease payment of ¥5,224 million ($49,428 thousand).

Equivalents of acquisition cost, accumulated depreciation, and net book value of leased properties for the years ended March 31, 2003 and 2004, were as follows:

	Millions of yen		
Year ended March 31, 2003	Machinery & equipment	Other	Total
Acquisition cost equivalent	¥ 4,026	¥ 7,341	¥ 11,367
Accumulated depreciation equivalent	(2,074)	(4,476)	(6,550)
Net book value equivalent	¥ 1,952	¥ 2,865	¥ 4,817

	Millions of yen		
Year ended March 31, 2004	Machinery & equipment	Other	Total
Acquisition cost equivalent	¥ 4,237	¥ 6,757	¥ 10,994
Accumulated depreciation equivalent	(2,327)	(3,393)	(5,720)
Net book value equivalent	¥ 1,910	¥ 3,364	¥ 5,274

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2004	Machinery & equipment	Other	Total
Acquisition cost equivalent	$ 40,089	$ 63,932	$ 104,021
Accumulated depreciation equivalent	(22,017)	(32,103)	(54,120)
Net book value equivalent	$ 18,072	$ 31,829	$ 49,901

B. LESSOR LEASES

Rental income from finance leases under which the ownership of the leased assets is not transferred to lessees for the years ended March 31, 2002, 2003 and 2004 was ¥2,503 million, ¥2,502 million and ¥2,285 million ($21,620 thousand).

Total lease obligation as of March 31, 2003 and 2004, inclusive of interest income under such leases, was ¥6,184 million and ¥5,487 million ($51,916 thousand), including ¥2,181 million and ¥2,006 million ($18,980 thousand) due within one year. Included in the total lease obligation as of March 31, 2004 is obligation for sub-lease payment of ¥5,466 million ($51,717 thousand).

Acquisition cost, accumulated depreciation and net book value of lease properties for the years ended March 31, 2003 and 2004, were as follows:

	Millions of yen		
Year ended March 31, 2003	Machinery & equipment	Other	Total
Acquisition cost	¥ 7	¥ 467	¥ 474
Accumulated depreciation	(7)	(444)	(451)
Net book value	¥ 0	¥ 23	¥ 23

Year ended March 31, 2004	Millions of yen Machinery & equipment	Other	Total
Acquisition cost	¥ 6	¥ 408	¥ 414
Accumulated depreciation	(6)	(388)	(394)
Net book value	¥ 0	¥ 20	¥ 20

Year ended March 31, 2004	Thousands of U.S. dollars (Note 1) Machinery & equipment	Other	Total
Acquisition cost	$ 57	$ 3,860	$ 3,917
Accumulated depreciation	(57)	(3,671)	(3,728)
Net book value	$ 0	$ 189	$ 189

8 CONTINGENCIES

(a) Contingent liabilities for notes receivable discounted with banks with recourse at March 31, 2004 were ¥330 million ($3,122 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, 2004 were ¥7,205 million ($68,171 thousand).
(c) Based on debt assumption agreements with financial institutions, the Company has transferred the debt repayment obligation for certain bonds to such financial institutions.

As of March 31, 2004, the Company had contingent obligations in respect to the following bonds.

	Millions of yen	Thousands of U.S. dollars (Note 1)
3.08% unsecured straight yen bonds due in 2004	¥ 4,000	$ 37,846
2.70% unsecured straight yen bonds due in 2004	4,400	41,631
2.83% unsecured straight yen bonds due in 2005	4,700	44,470
2.86% unsecured straight yen bonds due in 2005	2,600	24,600
2.50% unsecured straight yen bonds due in 2004	4,600	43,524
Total	¥20,300	$192,071

9 SECURITIES

The following tables summarize acquisition costs, book value, and fair value of securities as of March 31, 2003 and 2004:

As of March 31, 2003

(a) Held-to-maturity debt securities

Bonds with fair value

	Millions of yen Book value	Fair value	Difference
Fair value exceeding book value	¥ 630	¥ 640	¥ 10
Fair value not exceeding book value	312	311	(1)
Total	¥ 942	¥ 951	¥ 9

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

	Millions of yen		
	Acquisition cost	Book value	Difference
BOOK VALUE EXCEEDING ACQUISITION COST:			
Equity securities	¥ 940	¥ 1,447	¥ 507
Bonds	4,157	4,244	87
Subtotal	¥ 5,097	¥ 5,691	¥ 594
BOOK VALUE NOT EXCEEDING ACQUISITION COST:			
Equity securities	¥ 13,436	¥ 11,375	¥ (2,061)
Bonds	1,733	1,726	(7)
Other	7	6	(1)
Subtotal	¥ 15,176	¥ 13,107	¥ (2,069)
Total	¥ 20,273	¥ 18,798	¥ (1,475)

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

	Millions of yen		
	Amount of sales	Gain	Loss
	¥ 654	¥ 246	¥ 101

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	¥ 70
(b) Shares issued by unconsolidated subsidiaries and affiliates	
Non-listed securities	¥ 25,734
(c) Available-for-sale securities	
Money management fund	¥ 1,766
Free financial fund	3,025
Non-listed securities	18,990
Total	¥ 23,781

Schedule of redemption for available-for-sale securities with maturities and held-to-maturity debt securities is 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	¥—

As of March 31, 2004

(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	¥ 449	¥ 450	¥ 1	$ 4,248	$ 4,258	$ 10
Fair value not exceeding book value	—	—	—	—	—	—
Total	¥ 449	¥ 450	¥ 1	$ 4,248	$ 4,258	$ 10

(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	¥ 7,894	¥18,123	¥10,229	$ 74,690	$171,473	$96,783
Bonds	4,197	4,254	57	39,710	40,250	540
Other	4	4	0	38	38	0
Subtotal	¥12,095	¥22,381	¥10,286	$114,438	$211,761	$97,323
BOOK VALUE NOT EXCEEDING ACQUISITION COST:						
Debt securities	¥ 6,099	¥ 5,711	¥ (388)	$ 57,707	$ 54,035	$(3,672)
Bonds	1,303	1,303	(0)	12,329	12,329	(0)
Subtotal	¥ 7,402	¥ 7,014	¥ (388)	$ 70,036	$ 66,364	$(3,672)
Total	¥19,497	¥29,395	¥9,898	$184,474	$278,125	$93,651

(c) Available-for-sale securities sold during year ended March 31, 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Amount of sales	Gain	Loss	Amount of sales	Gain	Loss
	¥ 2,672	¥ 1,321	¥ 69	$ 25,281	$ 12,499	$ 653

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	Book value	Book value
(a) Held-to-maturity debt securities		
Non-listed bonds	¥ 69	$ 653
(b) Shares issued by unconsolidated subsidiaries and affiliates		
Non-listed securities	¥ 27,578	$ 260,933
(c) Available-for-sale securities		
Money management fund	¥ 1,766	$ 16,709
Free financial fund	3,026	28,631
Non-listed securities	17,207	162,806
Total	¥ 21,999	$ 208,146

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

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds and municipal bonds	¥ 2,257	¥ 1,765	¥ 13	¥ —
Corporate bonds	1,654	321	—	—
Total	¥ 3,911	¥ 2,086	¥ 13	¥ —

	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	$ 21,355	$ 16,700	$ 123	$ —
Corporate bonds	15,650	3,037	—	—
Total	$ 37,005	$ 19,737	$ 123	$ —

10 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 the 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, and 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 the 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 Petroleum Department, and Industrial Fuel Department control derivative transactions on a single–department basis and the second Corporate Planning Department controls derivative transactions on a Companywide basis. General managers of the Demand & Supply Coordination Department, International Petroleum 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, 2003 and 2004 of derivative transactions for which hedge accounting has not been applied:

(1) Currency related

	Contract amounts			Market value	Unrealized gains
Year ended March 31, 2003	Due within 1 year	Due after 1 year	Total		Millions of yen
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

Millions of yen

	Contract amounts			Market value	Unrealized gains (losses)
Year ended March 31, 2004	Due within 1 year	Due after 1 year	Total		
Forward exchange contracts					
Buy					
U.S. dollars	¥ 50,049	¥ —	¥ 50,049	¥ 48,300	¥ (1,749)
Currency option contracts					
Buy					
Call U.S. dollars	8,455	—	8,455	39	(46)

Thousands of U.S. dollars (Note 1)

	Contract amounts			Market value	Unrealized gains (losses)
	Due within 1 year	Due after 1 year	Total		
Forward exchange contracts					
Buy					
U.S. dollars	$ 473,545	$ —	$ 473,545	$ 456,997	$ (16,548)
Currency option contracts					
Buy					
Call U.S. dollars	79,998	—	79,998	369	(435)

(2) Commodity related

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

11 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, 2003 and 2004 consist of the following:

March 31, 2003	Millions of yen
Projected benefit obligation	¥ (88,979)
Pension assets	60,204
Unrecognized net transition obligation	9,479
Unrecognized actuarial differences	19,104
Less prepaid pension costs	(3,891)
Liabilities for retirement and severance benefits	¥ (4,083)

March 31, 2004	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligation	¥ (87,168)	$ (824,752)
Pension assets	69,340	656,070
Unrecognized net transition obligation	4,740	44,848
Unrecognized actuarial differences	8,572	81,105
Less prepaid pension costs	—	—
Liabilities for retirement and severance benefits	¥ (4,516)	$ (42,729)

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, 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
Service costs	¥ 2,846
Interest cost on projected benefit obligation	2,137
Expected return on plan assets	(2,004)
Amortization of net transition obligation	4,739
Amortization of net actuarial loss	1,718
Retirement and severance benefit expenses	¥ 9,436

March 31, 2004	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs	¥ 3,027	$ 28,640
Interest cost on projected benefit obligation	2,081	19,690
Expected return on plan assets	(2,029)	(19,198)
Amortization of net transition obligation	4,740	44,848
Amortization of net actuarial loss	2,206	20,872
Retirement and severance benefit expenses	¥10,025	$ 94,852

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.)

12 INCOME TAXES

The statutory income tax rates used for calculation of deferred tax assets and liabilities were 40.87% and 39.54% for current items and non—current items, respectively, at March 31, 2003. Effective for years commencing on April 1, 2004, according to the revised local tax law, income tax rates for enterprise taxes were changed 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 rate of 40.44% for the year ended March 31, 2004.

As a result of the change in the statutory income tax rates, deferred income tax liabilities after being netted with tax assets increased by ¥209 million ($1,977 thousand), provision for deferred income taxes increased by ¥127 million ($1,202 thousand) and unrealized gains (losses) on securities deceased by ¥82 million ($776 thousand) compared with what would have been recorded under the previous local tax law. Also, deferred tax for revaluation reserve for land decreased by ¥235 million ($2,223 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, 2004:

Year ended March 31, 2004	
Statutory income tax rate	40.87%
INCREASE (DECREASE) IN TAXES RESULTING FROM:	
Non-Japanese taxes	10.29
Non-deductible expenses	4.99
Effect on equity in earnings (losses) of affiliates	(6.31)
Effect on change in enacted tax rate	0.72
Other	(0.91)
Effective income tax rate	49.65%

Significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2003 and 2004 are as follows:

Year ended March 31, 2003	Millions of yen
CURRENT DEFERRED TAX ASSETS:	
Excess bonuses accrued	¥ 1,571
Accounts receivable	995
Other	799
Total current deferred tax assets	3,365
Valuation allowance	(9)
Total current deferred tax assets, net of valuation allowance	3,356
Account offset against deferred tax liabilities	(74)
Net current deferred tax assets	¥ 3,282
CURRENT DEFERRED TAX LIABILITIES:	
Allowance for doubtful accounts	¥ (51)
Other	(24)
Total current deferred tax liabilities	(75)
Account offset against deferred tax assets	74
Net current deferred tax liabilities	¥ (1)
NON-CURRENT DEFERRED TAX ASSETS:	
Marketable securities	¥ 5,216
Depreciation	2,410
Unrealized gains	1,410
Allowance for special repair works	1,269
Net operating loss carry forward	1,142
Costs for retirement and severance benefits	1,110
Golf-club membership	1,033
Allowance for doubtful accounts	942
Other	3,980
Total non-current deferred tax assets	18,512
Valuation allowance	(1,168)
Total non-current deferred tax assets, net of valuation allowance	17,344
Account offset against deferred tax liabilities	(13,902)
Net non-current deferred tax assets	¥ 3,442

NON-CURRENT DEFERRED TAX LIABILITIES:	
Reserve for deferred gains on sales of fixed assets for tax purposes	¥(12,630)
Non-Japanese taxes	(5,673)
Retirement and severance benefits	(1,538)
Reserve for losses on overseas investments	(765)
Special depreciation	(210)
Other	(3,465)
Total non-current deferred tax liabilities	(24,281)
Account offset against deferred tax assets	13,902
Net non-current deferred tax liabilities	¥(10,379)

Year ended March 31, 2004	Millions of yen	Thousands of U.S. dollars (Note 1)
CURRENT DEFERRED TAX ASSETS:		
Accounts receivable	¥ 1,914	$ 18,110
Excess bonuses accrued	1,788	16,917
Other	1,661	15,716
Total current deferred tax assets	5,363	50,743
Valuation allowance	(210)	(1,987)
Total current deferred tax assets, net of valuation allowance	5,153	48,756
Account offset against deferred tax liabilities	(104)	(984)
Net current deferred tax assets	¥ 5,049	$ 47,772
CURRENT DEFERRED TAX LIABILITIES:		
Allowance for doubtful accounts	¥ (85)	$ (804)
Other	(33)	(312)
Total current deferred tax liabilities	(118)	(1,116)
Account offset against deferred tax assets	104	984
Net current deferred tax liabilities	¥ (14)	$ (132)
NON-CURRENT DEFERRED TAX ASSETS:		
Marketable securities	¥ 4,828	$ 45,681
Depreciation	2,262	21,402
Allowance for special repair works	1,783	16,870
Costs for retirement and severance benefits	1,251	11,837
Unrealized gains	1,205	11,401
Golf-club membership	982	9,291
Allowance for doubtful accounts	646	6,112
Net operating loss carry forward	449	4,248
Other	1,435	13,578
Total non-current deferred tax assets	14,841	140,420
Valuation allowance	(952)	(9,007)
Total non-current deferred tax assets, net of valuation allowance	13,889	131,413
Account offset against deferred tax liabilities	(10,651)	(100,776)
Net non-current deferred tax assets	¥ 3,238	$ 30,637

NON-CURRENT DEFERRED TAX LIABILITIES:

Reserve for deferred gains on sales of fixed assets for tax purposes	¥ (13,389)	$ (126,682)
Non-Japanese taxes	(5,225)	(49,437)
Reserve for losses on overseas investments	(617)	(5,838)
Special depreciation	(168)	(1,590)
Other	(4,978)	(47,099)
Total non-current deferred tax liabilities	(24,377)	(230,646)
Account offset against deferred tax assets	10,651	100,776
Net non-current deferred tax liabilities	¥ (13,726)	$ (129,870)

In addition, deferred tax liability related to land revaluation of ¥10,272 million and ¥10,592 million ($100,218 thousand) were included in the consolidated balance sheets for the years ended March 31, 2003 and 2004, respectively, other than the above mentioned items.

13 SEGMENT INFORMATION

(1) Business 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, 2003 and 2004, product groups summarize business operations of the Company and its consolidated subsidiaries as follows:

Millions of yen

Year ended March 31, 2002	Petroleum	Oil Resource Development	Other	Total	Elimination or corporate	Consolidated
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

Millions of yen

Year ended March 31, 2003	Petroleum	Oil Resource Development	Other	Total	Elimination or corporate	Consolidated
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, 2004	Petroleum	Oil Resource Development	Other	Total	Elimination or corporate	Consolidated
						Millions of yen
NET SALES:						
Outside customers	¥ 1,862,554	¥ 12,950	¥ 40,774	¥ 1,916,278	¥ —	¥ 1,916,278
Inter-segment	537	18,697	25,960	45,194	(45,194)	—
Total	1,863,091	31,647	66,734	1,961,472	(45,194)	1,916,278
Operating expenses	1,845,141	24,121	66,061	1,935,323	(44,291)	1,891,032
Operating income	¥ 17,950	¥ 7,526	¥ 673	¥ 26,149	¥ (903)	¥ 25,246
IDENTIFIABLE ASSETS, DEPRECIATION AND AMORTIZATION AND CAPITAL EXPENDITURES:						
Assets	¥ 1,079,880	¥ 63,900	¥ 31,065	¥ 1,174,845	¥ 85,247	¥ 1,260,092
Depreciation and amortization	¥ 20,845	¥ 3,267	¥ 118	¥ 24,230	¥ (598)	¥ 23,632
Capital expenditures	¥ 28,427	¥ 8,671	¥ 144	¥ 37,242	¥ (669)	¥ 36,573

Year ended March 31, 2004	Petroleum	Oil Resource Development	Other	Total	Elimination or corporate	Consolidated
						Thousands of U.S. dollars (Note 1)
NET SALES:						
Outside customers	$ 17,622,802	$ 122,528	$ 385,789	$ 18,131,119	$ —	$ 18,131,119
Inter-segment	5,081	176,904	245,624	427,609	(427,609)	—
Total	17,627,883	299,432	631,413	18,558,728	(427,609)	18,131,119
Operating expenses	17,458,047	228,224	625,045	18,311,316	(419,065)	17,892,251
Operating income	$ 169,836	$ 71,208	$ 6,368	$ 247,412	$ (8,544)	$ 238,868
IDENTIFIABLE ASSETS, DEPRECIATION AND AMORTIZATION AND CAPITAL EXPENDITURES:						
Assets	$ 10,217,428	$ 604,598	$ 293,926	$ 11,115,952	$ 806,576	$ 11,922,528
Depreciation and amortization	$ 197,228	$ 30,911	$ 1,116	$ 229,255	$ (5,658)	$ 223,597
Capital expenditures	$ 268,966	$ 82,042	$ 1,362	$ 352,370	$ (6,330)	$ 346,040

As described in Note 2, effective January 1, 2002, Cosmo Engineering changed its revenue recognition from the completed contract method to the percentage of completion method for long–term and large engineering contracts which are more than 1 year and of which the contract amount is more than ¥100 million ($946 thousand).

As a result of the change, the sales regarding "Other" for the year ended March 31, 2003 increased by ¥312 million ($2,952 thousand) and operating income increased by ¥9 million ($85 thousand).

The Company modified business sectionalization, and business segment information for "Oil Resource Development" is 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 ($6,339 thousand), ¥16 million ($151 thousand) and ¥34 million ($322 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 ($2,791 thousand) for the year ended March 31, 2002.

(2) Geographic segment information

Geographic segment information of the Company and its consolidated subsidiaries for the year ended March 31, 2004 is disclosed as follows:

Year ended March 31, 2004	Japan	Other	Total	Elimination or corporate	Consolidated
					Millions of yen
NET SALES:					
Outside customers	¥1,871,453	¥ 44,825	¥1,916,278	¥ —	¥1,916,278
Inter-segment	9,673	175,055	184,728	(184,728)	—
Total	1,881,126	219,880	2,101,006	(184,728)	1,916,278
Operating expenses	1,863,114	212,315	2,075,429	(184,397)	1,891,032
Operating income	¥ 18,012	¥ 7,565	¥ 25,577	¥ (331)	¥ 25,246
Assets	¥1,106,750	¥ 89,923	¥1,196,673	¥ 63,419	¥1,260,092

Year ended March 31, 2004	Japan	Other	Total	Elimination or corporate	Consolidated
					Thousands of U.S. dollars (Note 1)
NET SALES:					
Outside customers	$17,707,001	$ 424,118	$18,131,119	$ —	$18,131,119
Inter-segment	91,523	1,656,306	1,747,829	(1,747,829)	—
Total	17,798,524	2,080,424	19,878,948	(1,747,829)	18,131,119
Operating expenses	17,628,101	2,008,847	19,636,948	(1,744,697)	17,892,251
Operating income	$ 170,423	$ 71,577	$ 242,000	$ (3,132)	$ 238,868
Assets	$10,471,663	$ 850,818	$11,322,481	$ 600,047	$11,922,528

Geographic segment information for the years ended March 31, 2002 and 2003 is not disclosed as the net sales and assets of the Company and its consolidated subsidiaries in Japan were more than 90% of the consolidated net sales and assets.

(3) Exports sales information

Export sales information is not disclosed, as export sales from Japan represent less than 10% of the consolidated net sales for the years ended March 31, 2002, 2003 and 2004

14 PLEDGED ASSETS

Assets pledged as collateral at March 31, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Land	¥ 262,996	¥ 265,156	$ 2,508,809
Buildings and structures at net book value	36,475	35,225	333,286
Machinery and equipment at net book value	40,174	35,245	333,475
Investments in securities	2,744	5,513	52,162
Cash and deposits	—	100	946
Total	¥ 342,389	¥ 341,239	$ 3,228,678

Secured liabilities at March 31, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Notes and accounts payable, trade	¥ 32	¥ —	$ —
Short-term loans	25,678	24,085	227,883
Long-term debts	195,181	202,611	1,917,031
Other long-term liabilities	470	470	4,447
Total	¥ 221,361	¥ 227,166	$ 2,149,361

Other pledged assets at March 31, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
CONTINGENCIES FOR LOANS PAYABLE:			
Investment in securities	¥ 665	¥ —	$ —
DEPOSITS AS SECURITY FOR DEALING:			
Marketable securities	¥ 10	¥ 13	$ 123
Investments in securities	53	50	473
Total	¥ 63	¥ 63	$ 596

15 SUBSEQUENT EVENTS

On June 29, 2004, the Company's annual shareholders' meeting approved the year–end cash dividend payment of ¥3.00 (US$0.03) per share, or a total of ¥1,895 million ($17,931 thousand) to shareholders of record at March 31, 2004.

INDEPENDENT AUDITORS' REPORT

KPMG

To 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, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2 to the consolidated financial statements, for the year ended March 31, 2004, some of consolidated subsidiaries of COSMO OIL COMPANY, LIMITED changed classification of logistics expense and subcontracting work expense from cost of sales to selling, general and administrative expenses.

(2) As discussed in Note 13 to the consolidated financial statements, effective April 1, 2002, COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries changed its business segment and allocating method of operating expenses.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co

Tokyo, Japan
June 29, 2004

MAJOR SUBSIDIARIES AND AFFILIATES

Oil Exploration and Production

Oil exploration and production
- ABU DHABI OIL CO., LTD. (JAPAN)
- COSMO OIL ASHMORE LTD.
- MUBARRAZ OIL CO., LTD.
- UNITED PETROLEUM DEVELOPMENT CO., LTD.
- QATAR PETROLEUM DEVELOPMENT CO., LTD.

Petroleum Products

Import and export of crude oil and petroleum products
- COSMO OIL INTERNATIONAL PTE., LTD.
- COSMO OIL (U.K.) PLC.

Marine transportation
- COSMO TANKER CO., LTD.

Other

Engineering, insurance, lease
- COSMO ENGINEERING CO., LTD.
- COSMO TRADE & SERVICE CO., LTD.

Crude oil & petroleum products

Marine transportation

Construction of refining plants and others

COSMO OIL CO., LTD.

Refining of crude oil/ Sales of petroleum products/ Management of leased real

Lubricating oil

Manufacturing of lubricating oil
- COSMO OIL LUBRICANTS CO., LTD.

Sales of petroleum products
- COSMO PETROLEUM GAS CO., LTD.
- COSMO OIL LUBRICANTS CO., LTD.
- COSMO OIL SALES CO., LTD.

Distribution
- COSMO KAIUN CO., LTD.
- SAKAIDE COSMO KOSAN CO., LTD.
- COSMO DELIVERY SERVICE CO., LTD.

Manufacturing of petrochemical products
- COSMO MATSUYAMA OIL CO., LTD.
- MARUZEN PETROCHEMICAL CO., LTD.

Petrochemical material

Stockpiling
- HOKUTO KOGYO CO., LTD.
- TOZAI OIL TERMINAL CO., LTD.
- OKINAWA CTS CORP.
- OHGISHIMA OIL TERMINAL CO., LTD.

Research and Development
- COSMO TECHNOLOGY RESEARCH INSTITUTE

Management of leased real estate
- COSMO BUSINESS SUPPORT CO., LTD.

Customers

JAPAN

OIL EXPLORATION AND PRODUCTION

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

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

Cosmo Oil Ashmore Ltd.*
- Tokyo
- ¥1,475 million
- 51.00%
- Oil exploration and development

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

Mubarraz Oil Co., Ltd.#
- Tokyo
- ¥32,877 million
- 46.14% (25.85%)
- Oil exploration and production

Qatar Petroleum Development Co., Ltd.
- Tokyo
- ¥3,148 million
- 42.50%
- Oil exploration and development

MARINE TRANSPORTATION

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

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
- ¥10,000 million
- 42.11% (10.53%)
- Petrochemical development

DISTRIBUTION & STOCKPILING

Cosmo Delivery Service Co., Ltd.
- Chiba Pref.
- ¥50 million
- 100%
- Trucking and transportation services

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

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

Okinawa CTS Corp.#
- Okinawa Pref.
- ¥495 million
- 35.00%
- Oil storage, receiving, and shipping works

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

OVERSEAS

SALES OF PETROLEUM PRODUCTS

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 Oil Sales Co., Ltd.*
- Tokyo
- ¥585 million
- 100%
- 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
- 56.10%
- General plant and equipment engineering

OTHERS

Cosmo Business Support Co., Ltd.*
- 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 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

INVESTOR INFORMATION

As of March 31, 2004

ESTABLISHED
April 1, 1986

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
43,255

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

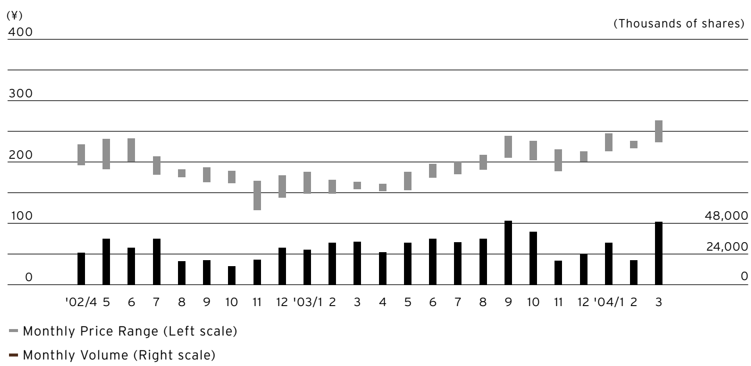
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
AZSA & Co.

INQUIRIES: IR GROUP
1-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8528, Japan
Phone: (03) 3798-3211
Fax: (03) 3798-3237
URL: http://www.cosmo-oil.co.jp

PRINCIPAL SHAREHOLDERS

	Number of shares owned (Thousands)	Percentage of total shares issued
Japan Trustee Services Bank, Ltd. (trust account)	54,459	8.62%
The Master Trust Bank of Japan, Ltd. (trust account)	31,337	4.96
Mizuho Corporate Bank, Ltd.	31,320	4.95
UFJ Bank Ltd.	25,268	4.00
Mitsui Sumitomo Insurance Company, Limited	21,878	3.46
Cosmo Oil Employees' Shareholding Association	19,515	3.08
The Kansai Electric Power Co., Inc.	18,600	2.94
The Tokio Marine and Fire Insurance Company, Limited	16,335	2.58
Sompo Japan Insurance Inc.	15,792	2.49
Nippon Life Insurance Company	11,985	1.89

PRICE RANGE OF STOCK AND TRADING VOLUME



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> Cosmo Oil has set a path of progress for itself as a company, while keeping its eye on the needs of society. The Company is dedicated to providing the energy that is essential for day-to-day living. Looking toward the future, Cosmo Oil is with you now, all throughout the day.

COSMO OIL CO., LTD.

1-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8528, Japan
http://www.cosmo-oil.co.jp

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