COSMO OIL

ANNUAL REPORT 1999

Year ended March 31, 1999

Established in its current form through the 1986 merger of three oil companies, Cosmo Oil Co., Ltd., is an integrated petroleum company engaged in activities ranging from crude-oil production through the refining and marketing of petroleum products. The Cosmo Oil Group currently comprises 31 subsidiaries and affiliates. Consolidated net sales amounted to ¥1.4 trillion (US$11.9 billion) in the fiscal year ended March 31, 1999.

Cosmo Oil meets a higher share of its crude-oil needs with its own reserves than any other Japan-based refiner, operates refineries in Japan's three largest metropolitan regions as well as Shikoku, and conducts marketing activities through a domestic network of 476 dealers and 6,481 service stations. The Company engages in a wide range of R&D work aimed at creating high-quality products and technologies that help respond to environmental protection concerns and diverse customer needs.

In line with its medium-term business plans, Cosmo Oil has sustained strenuous efforts to respond to changing conditions, strengthen its competitiveness, and become a more-comprehensive energy company. The Company has accelerated the implementation of major reform initiatives in its marketing, sourcing, logistics, and administrative support operations that entail the reevaluation and rationalization of existing systems, the consolidation of functions, and the promotion of symbiotic relationships.

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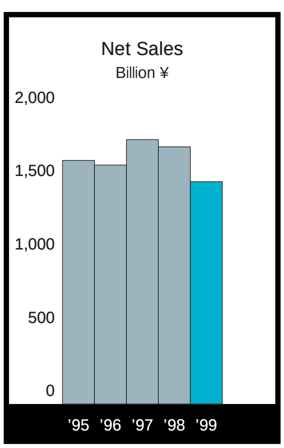
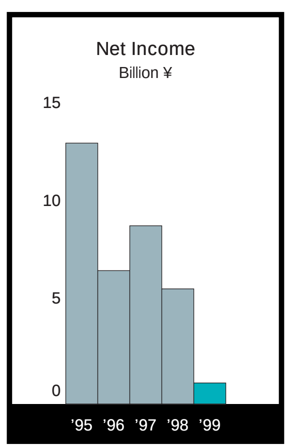
F I N A N C I A L & O P E R A T I N G H I G H L I G H T S

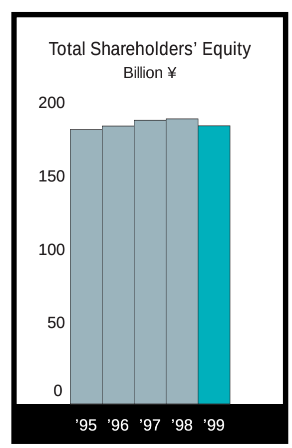
COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries
Years ended March 31, 1997, 1998 and 1999

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
For the year:				
Net sales	¥1,729,495	¥1,680,478	¥1,443,457	$11,929,397
Operating income	35,409	27,901	22,860	188,926
Net income	8,839	5,340	839	6,934
At year-end:				
Total shareholders' equity	189,790	190,716	186,496	1,541,289
Total assets	1,287,172	1,277,022	1,229,285	10,159,380
	Yen			U.S. dollars
Per common share:				
Net income	¥ 13.99	¥ 8.45	¥ 1.33	$ 0.01
Cash dividends	8.00	8.00	6.00	0.05

Note: U.S. dollar figures are translated from yen, for convenience only, at the rate of ¥121 to US$1, the approximate rate of exchange at March 31, 1999.







Keiichiro Okabe
Chairman and Chief Executive Officer

Fiscal 1999 Operating Environment and Performance

In fiscal 1999, ended March 31, 1999, the extreme severity of conditions in the Japanese economy was apparent, with unemployment reaching an unprecedented high and negative economic growth prevailing for a second consecutive year. Despite the successive implementation of economic stimulus measures by the government, private-sector capital investment dropped considerably, while increasing concern regarding prospective employment conditions depressed personal consumption. Amid these circumstances, domestic demand for gasoline remained firm, but the effects of the economic downturn and other trends reduced demand for all other principal petroleum products. Consequently, domestic demand for petroleum products was down overall.

The per-barrel price of Dubai crude was between US$11 and US$12 at the start of the period under review. It subsequently increased due to such developments as a major hurricane in the Gulf of Mexico and was above US$14 at the end of the fiscal year, following the March 1999 agreement of many oil exporters to begin full-scale reductions in production. As a result of the economic downturn in Asia and other factors that caused supplies to exceed demand, the price was generally low during the period, even falling below US$10 per barrel during December and February.

Due to the Japanese recession and concerns about the stability of Japan's financial system, the yen/dollar exchange rate shifted from the ¥133-to-¥134 to US$1 range to the ¥147-to-¥148 to US$1 range in August 1999. The yen began appreciating after the start of Russia's monetary crisis, however, and a sharp rise in Japanese long-term interest rates pushed the yen/dollar exchange rate to the ¥108-to-¥109 to US$1 range in January 1999. Reflecting the government's market intervention in response to the economic situation since that time, the yen/dollar rate ended the fiscal year in the ¥120-to-¥121 to US$1 range.

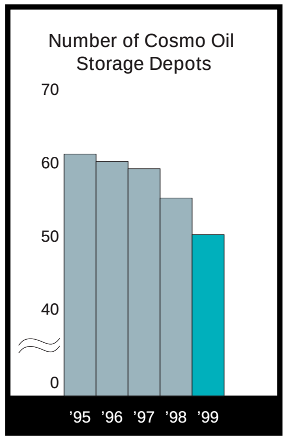
The supply/demand balance in the domestic petroleum product market was improved thanks to industrywide reductions in crude-oil processing, but fierce marketing competition kept gasoline prices weak, and a demand drop accompanying the recessionary conditions in Japan continued to reduce industrial fuel prices. Thus, the domestic petroleum product market remained harsh.

Against this backdrop, Cosmo Oil Co., Ltd., drafted and began concerted Companywide efforts to implement its New Structural Reform Plan. The basic goals of the new plan include reinforcing the Company's financial position, strengthening its marketing capabilities, optimizing its supply system, and streamlining its workforce.

With respect to marketing, Cosmo Oil revised the organization of its branches and other marketing units while working to expedite related decision-making processes. The Company also endeavored to merge or eliminate its own and subsidiaries' inefficient service stations, thereby progressing with fundamental reforms of its distribution network. Aiming to boost efficiency in lubricant oil operations, the Company spun off related departments, which were transferred to or consolidated within subsidiaries. To increase the diversity of payment methods at service stations, the Company began handling debit cards at service stations and participated in a test of electronic money. The Company introduced a wholesale price-setting system to promote the competitiveness of its service stations that utilizes a greater amount of information on market conditions and provided assistance through its service station management support program.

Regarding the procurement of crude oil and petroleum products, Cosmo Oil strove to flexibly and appropriately adjust its procurement policies in view of changes in supply/demand relationships and thereby obtain stable supplies of higher-quality crude oil at lower prices.

In the field of refining, the Company completed a fourth refining facility designed to help reduce the benzene content of its gasoline and worked proactively in other ways to help preserve the natural environment while endeavoring to increase the safety and competitiveness of its operations.



In distribution, Cosmo Oil expanded the scope of arrangements with other companies for the cooperative use of facilities, enabling it to close eight distribution depots. The Company also worked to reduce distribution costs by increasing the utilization of tanker trucks' full capacities, introducing more-sophisticated shipment-planning systems, and promoting streamlined systems for order-receipt and truck-shipment management.

As a result of these management initiatives, Cosmo Oil was able to boost its gasoline sales volume, although a decrease in industrial fuel sales caused the overall volume of fuel sales to slip 2.2% from the level of the previous year, to 43,816 thousand kiloliters. Reflecting this decline and a drop in selling prices, the Company's net sales fell 14.1%, to ¥1,443.4 billion. As Cosmo Oil's efforts to augment efficiency and profitability were not able to compensate for the depressed conditions in petroleum product markets, operating income was held to ¥22.8 billion, and net income amounted to ¥0.8 billion.

Given the harsh operating environment, cash dividends applicable to the period were set at ¥6.00 per share.

Management Tasks and Strategies

The progressive deregulation of Japan's oil industry has generated unprecedentedly severe competition, which makes it crucial to establish transparent and fair market systems and thereby build mechanisms for autonomous supply/demand adjustments. Having entered an era in which the market will determine which companies are most worthy of survival, all oil companies must redouble their efforts to bolster their cost-competitiveness, implement such environmental protection measures as those aimed at reducing carbon dioxide emissions, and eliminate excess supply capacity. Facing the trend of accelerating industrial restructuring and other challenges presented by an increasingly stringent operating environment, corporate managers will have to make difficult strategic decisions.

In response to the rigorous and rapidly changing operating environment, Cosmo Oil is maximizing its competitive strengths through

thorough programs to enhance the efficiency of its departments.

During fiscal 1997 and fiscal 1998—the first two years of Cosmo Oil's three-year Creative Reform 21 business plan—the Company achieved ¥51.0 billion in cost reductions, ¥1.0 billion more than the target. Accordingly, Creative Reform 21 was ended a year early and replaced by the New Structural Reform Plan, which is to cover fiscal 1999 and fiscal 2000. The new plan originally called for realizing ¥60.0 billion in additional cost reductions over two years. As approximately ¥40.0 billion in cost reductions were made during the first year of the plan and, in view of the rapid changes under way in the operating environment, we have raised the two-year cost-cutting target ¥20.0 billion, to ¥80.0 billion. In terms of scale and speed, our efficiency-raising program is quite ambitious compared to those of our competitors, and we therefore anticipate that the program will generate steadily growing competitive advantages.

By 2003, plans call for the creation of a Cosmo Oil network that features first-rate competitiveness and is truly loved by customers. If our efficiency targets are achieved, we are confident that we will be able to maintain superior competitiveness relative to foreign-affiliated competitors. We intend to reinforce the brand appeal of our network of service stations by offering customers conveniently located facilities that are easy to use, and we believe that superior service station management systems will be a key factor in boosting the network's attractiveness. The Company is building a network that fosters growing customer confidence that Cosmo Oil service stations are the best places to obtain gasoline and other diverse products and services. We anticipate that this approach will significantly bolster the power of the Cosmo Oil name.

Our management strategy has five principal foci: streamlining the balance-sheet structure, strengthening marketing capabilities, bolstering competitiveness with regard to supply-related costs, reevaluating personnel and staffing systems, and restructuring the Cosmo Group. Having assigned responsibilities and created internal systems for these tasks, we are proceeding with the implementation of the necessary measures.

Balance-Sheet Structure: Rather than simply strengthening our financial position, our financial strategies are designed to streamline our balance sheets to a degree greater than those of our competitors.

We are examining each balance-sheet item while reevaluating its relationship with our operations and its effect on capital employment efficiency. Through measures, including the sale or securitization of assets that have become less useful and the lowering of liquid asset levels, we intend to reduce total assets ¥200.0 billion and greatly lower the balance of interest-bearing debt by 2003. These measures will

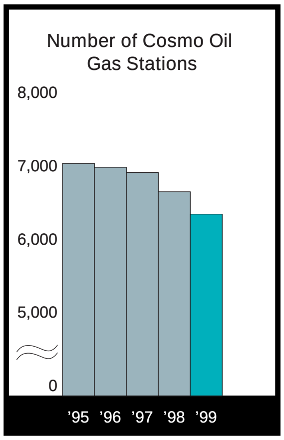
THE YEAR 2000 ISSUE

Since we started working on the Year 2000 (Y2K) problem in 1996, Cosmo Oil has made significant progress in modifying and upgrading computer and communication systems. We established the Y2K Committee, the first in the industry to be chaired by its president, to address the issue throughout the entire Company and implement all possible measures to ensure Cosmo Oil's operational performance and steady supply into the new millenium.

We completed the modification and upgrading of business computing systems in May 1999. The modification of process control systems at refineries, however, are scheduled to be completed in October 1999. Meanwhile, tests of both process control and business computing systems have been conducted to confirm their accurate operation.

increase the Company's equity ratio, funding source diversity, and financial strength, and we are confident that a rise in the market valuation of our stock will follow.

Marketing Capabilities: One prerequisite to establishing competitive superiority is strong marketing capabilities. As Cosmo Oil is a refiner and primary distributor, maintaining stable product supplies at competitive wholesale prices is a major business theme for the Company, though effecting reforms in retailing operations is also extremely important.



Aiming to maximize the profit-generating capacity of its overall distribution network—including the Company, Company-owned service stations, and affiliated service stations—Cosmo Oil is endeavoring to restructure its distribution operations. Through the ongoing NAVIgation (NAVI) program—which uses numerical indexes to objectively measure and represent degrees of competitive strength—the Company is boosting its profitability by promoting the rationalization of service station operations and helping service stations augment their added value to customers.

Besides supplying service station managers with the results of operational analyses, vehicle maintenance technologies, and other support, the current NAVIgation '99 (NAVI 99) program calls for the establishment of Best Care Life Entertainment (B-cle) Cosmo Car Care convenience stores that generate synergistic benefits with the service stations' fuel-marketing activities. Annual domestic sales of car-care products are expected to reach ¥10 trillion in the near future. To make the most of this promising market, we are building B-cle Cosmo Car Care convenience stores and transforming service stations into total car-care facilities similar to those of some automobile dealers.

We believe that overcoming the challenges of the harsh operating environment will also require merging and eliminating certain Company-owned and affiliated service stations. In the near future, we are considering the consolidation of one or two of the Cosmo Oil service station operators in which the parent company has an investment. Our plans also call for expeditiously closing those service stations that are unable to attain specified NAVI indexes or are difficult to upgrade. We reduced the number of Cosmo Oil service stations by 305 during fiscal 1999, and the decrease during fiscal 2000 is expected to be even greater.

As one of our important missions in preparing for Year 2000 problems, we organized a Y2K conference for our affiliated suppliers in April 1999. We have made efforts to educate and assist them with regard to Year 2000 readiness.

In addition, we have conducted repeated interviews with, and surveys of, tanker owners, cooperating distribution companies, and other critical third parties, aiming to monitor and request Y2K compliance programs.

We have also developed contingency plans to cope with unforeseen events. The contingency plans are designed to protect the environment and safety, continue business operations, and enable the resumption of any interrupted system immediately.

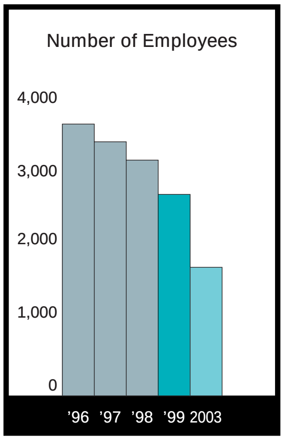
Cosmo Oil's Y2K compliance has been cross-checked by the Y2K Inspection Expert Committee established by the Agency of Natural Resources and Energy and evaluated as appropriate.

Supply-Related Costs: Already boasting top-class refining capabilities, Cosmo Oil is working to further improve its supply-related competitiveness through bold rationalization measures.

The Company is engaged in a project aimed at reducing the cost of refining a kiloliter of crude oil to ¥500 below the fiscal 1998 level by the end of fiscal 2000. As the attainment of this goal is now in sight, we have set ourselves the goal of realizing an additional ¥250 cost reduction by 2003. During fiscal 1998, the switch to a new equipment depreciation method, together with measures taken within the project just described, effectively lowered Cosmo Oil's per-kiloliter refining cost almost ¥1,000, to ¥2,700. This level is low enough to allow the Company to compete directly with particularly efficient refiners in Korea, Singapore, and elsewhere in Asia.

The bulk of our rationalization benefits are being derived from the lowering of personnel and maintenance expenses. By 2003, the number of employees assigned to refineries is to be reduced to 1,100, from approximately 1,800 in fiscal 1998. Maintenance expenses are being cut by reducing the frequency of periodic maintenance procedures—from once every two years to once every four years.

Personnel and Staffing Systems: Cosmo Oil is proceeding with a number of reforms to its personnel and staffing systems. Aiming to increase its organizational flexibility, the Company is placing special emphasis on reforms that will transform the staff of the head office, branches, and refineries into smaller, highly select groups.



Cosmo Oil reduced the number of its employees by 432 during fiscal 1999, to 2,677 at the end of March 1999. The Company has implemented two voluntary retirement plans, which encouraged 100 early retirements in fiscal 1997 and 230 in fiscal 1998. Through our third voluntary retirement plan, carried out during May and June 1999, we arranged an additional 466 early retirements. These programs, natural shrinkage of the workforce due to retirements at the standard age and other factors, restraint in new hiring, and the transfer of staff to companies outside the Cosmo Oil Group are expected to reduce the number of Cosmo Oil employees to 1,500 by 2003.

Regarding organizational restructuring measures, Cosmo Oil established the Personnel Center and the Buying Center during fiscal 1999. These two units have consolidated the functions of the personnel departments of each individual facility of the Company and all the purchasing activities of the Cosmo Oil Group, respectively. Within individual branches, the Company has emphasized the goals of creating smaller staffs, increasing responsiveness to changes in the operating environment, and strengthening internal checks and controls as it moves to more effectively distribute employees and create staffs of optimal sizes and greater flexibility.

With respect to remuneration, the fiscal 2000 salaries and bonuses of all employees have been reduced 10%.

The Cosmo Group: Based on the results of our reevaluation of the profitability and potential of each Cosmo Oil Group business, we are currently considering how best to restructure the Group, including measures to withdraw from certain operational fields. As a part of this program, we have taken rationalization steps designed to promote greater sharing of human, physical, and financial resources, and we have merged certain units and made other organizational moves to strengthen business capabilities.

In July 1998, Cosmo Oil became the first primary distributor of petroleum products in Japan to unify all departments of Group companies related to lubricant oils. At the same time, to increase the independent accountability of our lubricant operations, we spun them off and incorporated them as Cosmo Oil Lubricants Co., Ltd. By 2003, the new company is aiming to implement rationalization measures that will allow it to realize approximately ¥5.0 billion in cost cuts and reduce the size of its workforce from 400 employees to 200.

Also during July 1998, we merged two subsidiaries—Cosmo Computer Center Co., Ltd., which developed and operated in-house information systems and point-of-sale systems for service stations, and Cosmo Computer Info-Net Co., Ltd., which processed information derived from various types of card transactions. The merged company has retained the name Cosmo Computer Center Co., Ltd., and plans call for it to make a large contribution to further rises in office productivity at each Group company.

Before ending this message, I would like to comment on our development projects. Due to the success of projects in the Middle East and off the coast of Australia, which were undertaken in line with Cosmo Oil's objective of establishing independent sources of crude oil, the Company derives 16% of the crude oil it refines from its own sources. This is the highest such share among Japanese oil companies not affiliated with a major international oil company. In addition, we are proceeding with preparations to construct a power plant adjacent to the Yokkaichi Refinery and will begin supplying power as an independent power producer (IPP) from 2003. We are also considering the creation of a second IPP facility.

Conclusion

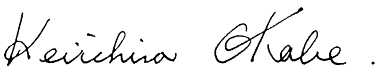
Moves to restructure Japan's oil industry are being announced one after another. While mergers within the industry have the potential for boosting efficiency, I believe that it is important to boost competitiveness through progressive efforts within each corporate group rather than through the impetuous arrangement of mergers. Cosmo Oil plans to proceed with rationalization measures more quickly than recently merged companies and thus achieve comparable cost reductions. After completing its current efficiency-boosting program, Cosmo Oil will sustain diverse strategic programs aimed at establishing and sustaining competitive superiority.

At the time of its 1986 establishment, Cosmo Oil proclaimed that it would be an industry leader during the 21st century. Now, on the brink of the 21st century, we recognize that the current period represents a critical juncture in the Company's development. Guided by this recognition, we have set ourselves a broad range of goals that are more ambitious than those of our competitors. We are maintaining reform-oriented mind-sets unconstrained by previous practices, and we are doing our utmost to maximize the speed at which our reforms are implemented.

In line with our objective of attracting shareholders from around the world, we are augmenting investor relations programs, stepping up information disclosure activities, and endeavoring to increase the transparency of management.

As a company that shares the responsibility for providing Japan with energy, Cosmo Oil will continue conforming to a rigorous code of business ethics, working to obtain stable sources of crude oil, and striving to supply top-quality products. Through these measures, as well as initiatives that help protect the natural environment and make special contributions to society, the Company will sustain its dynamic evolution and growth in harmony with society.

September 1, 1999



Keiichiro Okabe,
Chairman and
Chief Executive Officer

Front row, from left:
Chairman and
Chief Executive Officer
Keiichiro Okabe
Vice Chairman
Kazuhiko Mitsumoto
Back row, from left:
Senior Managing Directors
Masayoshi Tomiyasu
Motonobu Sasaki
Akira Kato
Yaichi Kimura

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Keiichiro Okabe*

VICE CHAIRMAN
Kazuhiko Mitsumoto*

SENIOR MANAGING DIRECTORS
Motonobu Sasaki*
Akira Kato*
Masayoshi Tomiyasu*
Yaichi Kimura*

MANAGING DIRECTORS
Masaaki Takeda
Masaru Mori
Masaaki Takeuchi

DIRECTORS
Takefumi Uchida
Yasuyo Kobuchi
Norio Kato
Kiyoto Kudama
Yoshiyuki Yuasa

STANDING AUDITORS
Keizo Nishimura
Yoshitomi Ebisuya**
Masanori Harada
Hiroyasu Oda

AUDITOR
Hajime Miyamoto**

*Representative Director
**Independent Auditor

(As of June 29, 1999)

REVIEW OF OPERATIONS

Marketing

Refining

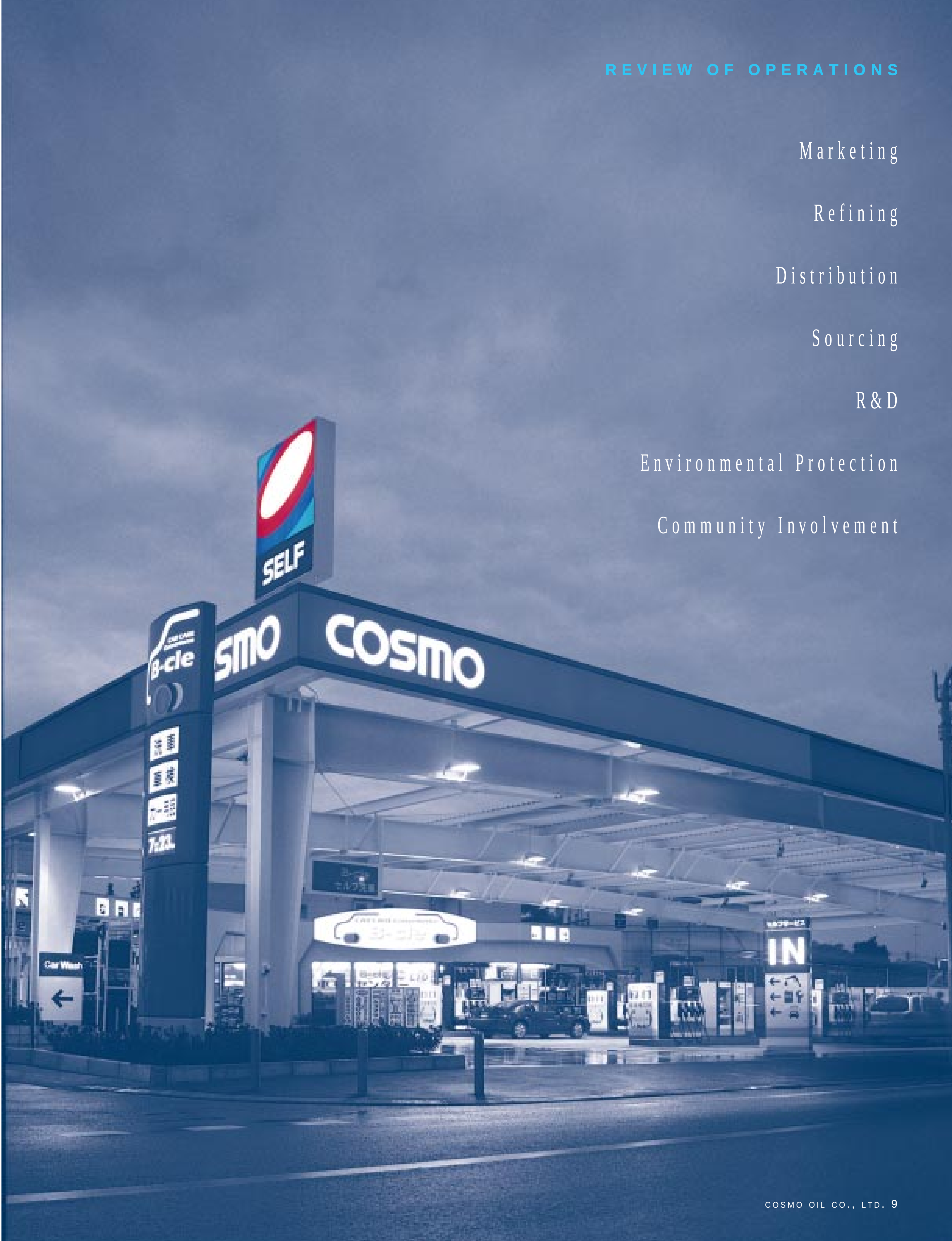
Distribution

Sourcing

R&D

Environmental Protection

Community Involvement



Marketing

MARKETING

▶This self-service gas station in Funabashi features Cosmo Oil's exclusive "Island Payment Method," which enables customers to pay for their purchases using automated payment equipment adjacent to the fuel pumps.

Amid a harsh operating environment in fiscal 1999, Cosmo Oil proceeded with the implementation of its New Structural Reform Plan. The plan is designed to establish the Company's competitive superiority vis-à-vis other companies in the Japanese oil industry as well as companies that may enter the industry in the future. By reforming its distribution structure, the Company intends to maintain stable profitability despite new challenges presented by its operating environment. Centering on additional cost cuts, the reforms aim to bolster the competitive strength of Company-owned and affiliated service stations.

The NAVI 98 program, implemented during fiscal 1998, aimed to reduce the NAVI index of all Company-owned service stations to 10 or less. In addition, the program included a new Corporate NAVI index that measures the progress in the efforts of affiliated service station operators to achieve low-cost operations in head office administrative and support departments. The Corporate NAVI index target was initially set at 2. The target level of the NAVI index was reduced by 3.8.

The NAVI 98 program also provided support to operators of affiliated and Company-owned service stations. This support was intended to enable service stations to maintain a sound level of profitability—despite the recent shrinkage of profit margins on fuel sales—by adding B-cle Cosmo Car Care convenience stores to their facilities. The B-cle stores increase a service station's added value, provide an additional source of gross profit, and have a positive effect on NAVI index levels.

The consolidation of its network of affiliated service station operators and the closure and merger of Company-owned service stations is unavoidable in overcoming present difficult conditions. Accordingly, Cosmo Oil decreased the number of its affiliated service station operators by 37 during fiscal 1999, to 476. A number of the service

$$\text{NAVI index} = \frac{\text{Service station direct expenses} - \text{Gross profits excluding auto fuel (Kerosene gross profit + Value-added services and products' gross profit)}}{\text{Auto fuel (Gasoline + Light oil) sales volume}}$$

Notes: The NAVI index numerically measures the competitive strength of service stations.
A smaller NAVI index means a competitively stronger service station.

$$\text{Corporate NAVI index} = \frac{\text{Corporate overhead costs} - \text{Gross operating profit excluding service station business}}{\text{Auto fuel (Gasoline + Light oil) sales volume at direct-operation stations}}$$

Notes: The corporate NAVI index numerically measures contribution or burden by revenue and expenditure, excluding service station business, on a service station auto fuel margin basis.
A smaller Corporate NAVI index means a competitively stronger corporate organization.

stations run by newly consolidated operators were merged or eliminated, as were a number of service stations with high NAVI indexes that were judged to be excessively difficult to reduce. Consequently, the number of Cosmo Oil service stations fell by 305, to 6,481. During fiscal 2000, plans call for reducing the number of service stations by 891, to 5,590.

Implemented since January 1999, the NAVI 99 program emphasizes attaining NAVI index targets and restoring the profitability of unprofitable service stations. To achieve these targets, the program focuses primarily on cost reductions as well as such objectives as increasing the number of *Cosmo The Card* credit card holders and increasing the added value of individual products. The program also offers computer-based guidance on scientific management methods as well as seminars. As part of measures for raising the ability and team spirit of service station staff, the Company is providing training courses, including preparatory courses for obtaining national certification as qualified mechanics. The NAVI 99 program thus provides service stations with considerably more support than previous NAVI programs.

Service stations were once considered successful as long as they maintained NAVI indexes below 10. However, some facilities in regions where retail fuel prices have seen particularly sharp drops have been unable to sustain profitability despite their single-digit NAVI indexes. The Company is proactively working to introduce B-cle Cosmo Car Care convenience stores at such outlets.

Cosmo Oil opened its first self-service gas station on April 1, 1998, and the number of such service stations had grown to five by the end of August 1998. Plans call for energetically developing the full potential of these facilities.

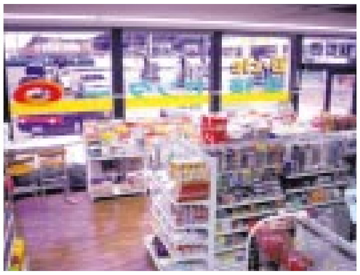
By appealing to customers' desire for convenience through the provision of diverse standard and premium cards that enable cashless transactions, the Company has significantly increased customer loyalty. In particular, the Company uses exclusive administration and management systems for its *Cosmo The Card* credit cards, and its system for the on-the-spot issuance of such cards is contributing to the cards' popularity.

From January 1999, Cosmo Oil joined the J-Debit system, and its service stations became the first service stations in Japan to settle transactions with debit cards. Since August 1998, the Company has shown itself to be an industry leader by participating in a test of an IC-card-based electronic money system organized by the Ministry of Posts and Telecommunications in Omiya, Saitama. Since April 1999, the Company has been taking part in a similar test in Tokyo's Shinjuku Ward, involving 24 banks, NTT, and other leading companies.

The Cosmo Oil Group's lubricant-related R&D, production, and marketing operations were previously handled by three companies. However, in July 1998 these operations were consolidated and incorporated as Cosmo Oil Lubricant. The lubricant business is challenging due to the diverse range of products that must be marketed in small lots. It is also labor intensive and characterized by intensifying competition. To overcome this competition, the Company decided to unify its related operations and promote the autonomous implementation of dynamic management policies.

Cosmo Oil's move to become Japan's first primary oil distributor to spin off its lubricant operations is an integral part of the Company's New Structural Reform Plan. The move will allow the halving of the 400-strong workforce that previously was assigned to lubricant-related operations, a reduction in the number of distribution depots from 46 to less than 10, and the realization of ¥5 billion in annual cost savings by the end of fiscal 2001.

▼B-cle Cosmo Car Care convenience stores have three components. The in-shop portion handles the sale of automotive as well as other products and displays information on additional products and services that are available. The Lube Corner focuses on the maintenance of mechanical and other functional automotive components, while the Body Corner handles the maintenance of vehicle exteriors. From fiscal 2000, regional B-cle networks of between four and six service stations will have been established, primarily to increase the efficiency of the periodic vehicle inspections mandated by Japanese law, which Cosmo Oil offers as a principal Lube Corner service. The law requires that vehicles be transported to government inspection facilities for such inspections.



Refining

REFINING

The relaxation of regulatory measures has made it possible for oil companies in Japan to freely adjust their refining operations in line with trends in supply and demand. As a result, the importance of minimizing costs by aptly making demand projections and production adjustments is increasing. The degree of oil companies' success in this regard is expected to be a major determinant of their performance.

Cosmo Oil's exceptionally well-integrated production and marketing systems enable the Company to efficiently supply products at the proper times in line with its marketing strategies. While it will continue to derive the bulk of its products through crude-oil-refining operations, Cosmo Oil's supply/demand projections allow it to make optimal use of product exports and imports with the goal of maximizing profitability. The Company's thorough integration of production and marketing operations positions it to speedily respond to market fluctuations—the more pronounced market fluctuations become, the greater the value of this special capability.

Cosmo Oil's four refineries are ideally situated to supply each of Japan's four principal petroleum-product-consuming regions. The refineries are also distinguished by their high yields of light and middle distillates.

One important objective of Cosmo Oil's refining strategy is further boosting the production of light and middle distillates, which are relatively high-value-added products that offer correspondingly large profit margins. The Company is doing this by augmenting the secondary refining facilities it uses to process the elements of crude oil that are separated in atmospheric distillation units. The principal types of secondary refining facility are fluid catalytic cracking (FCC) and heavy-oil direct desulfurization (HODD) units. Cosmo Oil's ratio of HODD capacity to atmospheric distillation unit capacity is considerably higher than the average level in Japan.

In addition, for many years, the Cosmo Research Institute has developed catalysts that are exceptionally resistant to deterioration caused by contact with highly active toxic substances. These catalysts are used in the FCC and HODD units at the Company's four refineries.

Using sophisticated refining equipment and high-quality catalysts, the Company has boosted its yield of the four principal middle distillates—diesel fuel, kerosene, jet fuel, and fuel oil A—to approximately 48%, significantly higher than the industry average of approximately 45%. This achievement has made an important contribution to corporate profitability.

Cosmo Oil also emphasizes the maintenance of appropriate inventory levels. While working to ensure stable supplies, the Company adjusts its refining and international product shipments to prevent the accumulation of excess inventories.

Reflecting the level of depreciation costs associated with Cosmo Oil's refineries as well as such measures as the introduction of cogeneration systems, the Company's refining costs are among the lowest in the industry. Currently, the Company is engaged in a project to reduce the cost of refining a kiloliter of crude oil by ¥500, which will lower the cost of annually refining approximately 30 million kiloliters of crude oil by ¥15.0 billion when the project is completed in fiscal 2000. The Company has also set itself the goal of realizing an additional ¥250-per-kiloliter cost reduction by 2003. These cost cuts are to be achieved by reducing personnel costs through increased outsourcing, lowering costs through the continuous operation of facilities for up to four years, and curtailing facility construction and installation costs through the reform of contracting procedures.

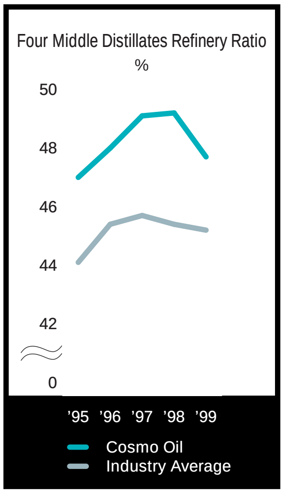
As part of its New Structural Reform Plan, Cosmo Oil established the Buying Center in June 1998. This facility has unified material and equipment procurement operations for the entire Cosmo Oil Group. The material and equipment procurement expenditure of refineries and depots for construction and other projects is particularly large, and the scale merits derived from funneling this procurement through the Buying Center have led to considerable cost savings.

Undertaking IPP Operations

Cosmo Oil has equipped itself with technologies required for IPP operations. In fiscal 1998, the Company reached an agreement with Chubu Electric Power Co., Inc., to supply that company with up to 200,000 kilowatts of power over a 15-year period beginning in fiscal 2004. Operating an asphalt-fueled IPP plant will enable Cosmo Oil to make optimal use of residual heavy oil from refining activities and facilitate the Company's efforts to raise its light- and middle-distillate production ratio. Cosmo Oil intends to work proactively to expand its new business operations within the energy industry.

Secondary Refining Facilities (As of April 1, 1999)

	Cosmo Oil	Industry
Atmospheric distillation (Thousand BPD)	645	5,375
FCC (%)	15.7	16.5
HODD (%)	15.8	11.1
FCC + HODD (%)	31.5	27.6



DISTRIBUTION

Cosmo Oil has a network of four refineries—in the Kanto region surrounding Tokyo, the Chukyo region surrounding Nagoya, the Kansai region surrounding Osaka, and on the island of Shikoku in western Japan—that, thanks to their locations, are better situated to supply key markets than the refineries of competing companies. To use its refineries and nationwide network of transshipment depots more efficiently, the Company is restructuring its distribution network by arranging for the cooperative use of production and distribution bases with other companies. As a result, the Company has been able to reduce the number of its depots from 57, at the end of fiscal 1998, to 52, and this number is slated to decline further.

Since April 1996, Cosmo Oil has worked to increase the efficiency of land transportation operations by shifting responsibility for order processing from individual depots to eight order centers. In June 1999, the Company further consolidated order processing within two new facilities—the Fuel Order Center and the Lubricant Order Center. Consequently, the number of employees handling order processing has been reduced almost 40%, to 74.

In October 1998, Cosmo Oil embarked upon a new stage in the rationalization of its distribution operations by initiating the cooperative use of the Ehime Prefecture plant of Cosmo Matsuyama Oil Co., Ltd., a wholly owned subsidiary. This plant was previously a refinery but has been serving as a petrochemical plant and transshipment facility for Cosmo Oil products since 1982. To take full advantage of the plant's storage tanks and other facilities, the plant's wharf capabilities were upgraded to allow the docking of 5,000-ton-class tankers, and a computer system able to manage the various shipments of different companies was installed.

Cooperative use of the plant was begun following the conclusion of contracts with six primary petroleum product distributors. Currently, annual income derived from these contracts amounts to approximately ¥300 million, and Cosmo Oil is making further cooperative arrangements to use the surplus capacity of the wharf facilities. In light of the success of this cooperative usage project, the Company is considering other schemes for making fuller use of its various facilities.

To enhance transportation efficiency, Cosmo Oil is shifting to larger carriers and introducing planned delivery systems. In fiscal 1999, the Company boosted the share of its tanker trucks with capacities of 20 kiloliters or more to 61%, the highest such proportion in the industry. At 18 kiloliters, the average capacity of the Company's tanker trucks is also high. Similarly, the average capacity of inland tankers used by the Company has risen to approximately 2,400 tons.

Launched during fiscal 1999, Cosmo Oil's automated truck-dispatching system determines optimal truck sizes and shipment sources. It has boosted the truck utilization rate and enabled a reduction in dispatching staff. Initiated in the Kanto region in September 1998, Cosmo Oil's use of night shipments has extended the hours of truck use by seven-to-eight hours a day, making it possible to further consolidate the Company's fleet.

▼Transportation facilities at Cosmo Matsuyama Oil Co., Ltd.

S O U R C I N G

Sourcing

Of the volume of crude oil imported by Cosmo Oil during fiscal 1999, approximately 16% was derived from the Company's own supply sources. This is a high ratio compared with other Japanese primary petroleum-product distributors. For many years, the Company has actively invested in exploration and development activities, emphasizing activities in the Middle Eastern core area comprising Abu Dhabi and Qatar. In the sheikhdom of Abu Dhabi, in the United Arab Emirates (UAE), the Company has engaged in oil exploration and development for 30 years. Cosmo Oil works through Abu Dhabi Oil Co., Ltd. (ADOC)—a subsidiary in which the Company has a 51.1% shareholding—as well as United Petroleum Development Co., Ltd. (UPD), an affiliate in which the Company has a 13.3% shareholding. The oil produced from its own reserves in Abu Dhabi, together with other Abu Dhabi oil procured through direct dealing transactions and other means, accounts for approximately 25% of Cosmo Oil's total crude-oil import volume.

Acting as operator, ADOC has produced oil at the Mubarraz Oil Field for 26 years, and it has maintained and increased the field's output through such means as drilling horizontal wells and infilling wells. In the Umm Al Anbar and Neewat Al Ghalan oil fields, a subsidiary, Mubarraz Oil Co., Ltd. (MOCO), in which the Company has a 20.3% shareholding, has sustained steady production by injecting gas into wells using the hydrocarbon-gas miscible drive system. Drawing on such new technologies and efficient production methods, the Company is maximizing the exploitable portion of its oil reserves.

In July 1997, Cosmo Oil, together with partners, signed the Development and Production Sharing Agreement with Qatar General Petroleum Corporation in Block 1 South East off the eastern coast of Qatar, and Qatar Petroleum Development Co., Ltd. (QPD), a joint venture established in September 1997, has already begun exploration in this block. With a 37.7% shareholding, Cosmo Oil is the leading private-sector shareholder in the new joint venture. Appraisal wells were drilled in the Al Karkara Structure and A-Structure North during 1998 and extended well testing (EWT) began there in October 1998. The EWT ended after approximately a half year, in March 1999, by which time 830 thousand barrels of crude oil had been obtained. Plans now call for performing studies using the appraisal results to determine the optimal method for developing the field.

Cosmo Oil Ashmore Ltd., a subsidiary established in September 1996 in which Cosmo Oil has a 57% shareholding, has obtained a 25% share of the exploration permit for the AC/P17 block in the Australian portion of the Timor Sea, where the operator is Cultus Timor Sea Ltd. In July 1998, the Tenacious-1/ST1 exploratory well discovered an oil pool, which flowed at a rate of 7,667 barrels per day on testing. Government authorities declared a location over the Tenacious discovery in December 1998.

Cosmo Oil Cartier Ltd., a wholly owned subsidiary established in March 1998, has a 25% share of the exploration permit for the AC/P18 block in the Timor Sea.

While giving due attention to economic feasibility characteristics, Cosmo Oil intends to continue working on exploration and development operations.

◀Australia

▶The UAE & Qatar

R & D

already licensed the related catalyst technology to U.S.-based UOP Corp., and the technology has won the Japan Petroleum Institute Award.

The Cosmo Oil Group is proactively undertaking a wide range of R&D aimed at creating high-quality technologies, materials, and products that help meet customer needs and respond to rising concerns related to environmental protection.

The Cosmo Research Institute, the hub of the Company's R&D program, has an outstanding performance record. Regarding research related to petroleum products, the institute's work to enhance the quality of gasoline and reduce associated environmental burdens has led to the development of an improved method for benzene removal. The institute has also had great success in research to reduce the cost of producing gasoline and diesel fuel. Regarding refining processes, the institute has carried out R&D related to catalysts for hydrodesulfurization and fluid catalytic cracking (FCC). The developed catalysts are used at Cosmo Oil's refineries, where they have helped reduce operating costs. The institute has also achieved the commercialization of a novel catalyst for the isomerization of light naphtha at moderate temperatures. This robust and regenerable catalyst exhibits high activity for light naphtha isomerization. It thus makes possible the production of high-octane isomerized gasoline without the preliminary processing of ingredients. This allows companies to reduce their spending on isomerization unit construction and produce high-octane gasoline simply by using the new catalyst in existing isomerization units.

As isomerized gasoline does not contain olefins or aromatics, it has attracted growing attention for its environmental friendliness and is expected to be in increasing widespread demand. Cosmo Oil has already licensed the related catalyst technology to U.S.-based UOP Corp., and the technology has won the Japan Petroleum Institute Award.

Regarding new R&D fields, Cosmo Oil has developed a low dielectric polymer, Möbius SMT Grade, which has great potential as a material for producing electronic components for the multimedia age. As a result of its high quality of electric performance, it is ideal for incorporation in the next-generation high-frequency antennae and molded interconnection devices that are in increasing use due to the upsurge in electronic communications. The superior heat resistance of this polymer allows it to be used in conjunction with new surface-mounting technologies that entail the attachment of electronic components with solder at relatively high temperatures.

Cosmo Oil has also developed thiacalixarenes, organic compounds with ring-shaped molecular structures composed of phenol rings and sulfur atoms. They have the potential for helping environmental protection when incorporated in devices for removing heavy metals from wastewater and isolating such substances as trihalomethane. In addition to these functions, the compounds are expected to have catalytic and antifungal applications.

Cosmo Oil's participation in motor racing serves as a promotional tool and provides a demanding testing ground for new products. In fiscal 1999, the Company sustained its support for the Cosmo Oil Racing Team, which is facilitating the development of such products as items within the LIO line of automotive lubricants.

▶Cosmo Oil received the Japan Petroleum Institute Award in 1998 for an innovative catalyst for light naphtha isomerization.

ENVIRONMENTAL PROTECTION

Since its creation in 1993, Cosmo Oil's Global Environment Committee has planned and supervised the implementation of numerous initiatives aimed at alleviating environmental problems and enhancing the Company's identity as an exemplary corporate citizen. Recognizing the need to help restore the global environment during the 21st century, Cosmo Oil has taken a variety of environmental measures, including those to promote paperless offices, paper recycling, and the thorough sorting of refuse to facilitate recycling. The Company has taken steps to encourage environmental measures at service stations, reduce fuel consumption in production and distribution operations, and minimize energy consumption at refineries. To promote the understanding of its environmental protection policies and thereby foster greater public trust, the Company is currently revamping its Global Environment Volunteer Plan.

In November 1998, Cosmo Oil participated in the establishment of the Global Environment Association, which initially included 69 companies and associations from various sectors of industry and society. The association has the fundamental goal of promoting harmonious progress in both economic development and environmental protection, and its diverse members are working to increase their mutual understanding and support as they proceed with the association's collaborative programs.

Having already obtained ISO 9002 and ISO 14001 quality and environmental management systems certification at each of its four refineries, Cosmo Oil has set itself the basic goals of economically providing stable supplies of environment-friendly and high-quality petroleum products so to help preserve the irreplaceable global environment. The Company is endeavoring to ensure that both these goals are emphasized in all its operations.

Cosmo Matsuyama Oil's plant, which is adjacent to the Seto Naikai National Park, obtained ISO 9002 and ISO 14001 certification in March and December 1998, respectively.

The Cosmo Oil Group is working to offer oil-fueled Total Energy Systems (TES's) to help make optimal use of natural resources, preserve the environment, and alleviate problems stemming from natural disasters. Accordingly, members of the Group are proceeding with the installation of cogeneration systems, which are a type of TES, in such facilities as hotels, hospitals, and shopping centers. Group members are also promoting the installation of kerosene-fueled heat-pump air-conditioning and heating equipment at service stations as well as factories, hospitals, and schools.

In light of the potential for large-scale damage from oil spills following accidents involving tankers, Cosmo Oil believes it has a duty to make thorough preparations for countering worst-case scenarios. According to an international agreement, all tankers built since 1996 must be double-hulled vessels, and the Company has given priority to employing such tankers, thereby promoting safer tanker transport. Following its February 1998 arrangement of a time charter for the newly launched double-hulled *Orient Leader,* Cosmo Oil has arranged the charter of additional double-hulled tankers from November 1999 and March 2000.

▲Benzene removal facilities at the Chiba Refinery

▼Cosmo Oil has introduced double-hulled tankers to minimize the risk of oil spills.

Community Involvement

▲The Cosmo Waku Waku Camp helps children who have lost their parents due to automobile accidents experience nature under the guidance of volunteers from among Cosmo Oil's employees.

Based on its belief that companies should do their utmost to make special contributions to society as corporate citizens, Cosmo Oil cooperates with local governments and residents in programs aimed at enhancing the communities in which it has a presence. The Company emphasizes the arrangement and sustained implementation of innovative programs as well as the direct participation of individual employees in such programs.

As part of such efforts, during fiscal 1999 Cosmo Oil provided support for the Japan Virtuoso Symphony Orchestra and hosted visually challenged musicians at one of the orchestra's concerts. In addition, the Company cooperatively gathered used prepaid telephone cards and postcards. These were given to the Comprehensive Support Center for the Visually Impaired, which markets them to collectors to raise funds for its programs. Cosmo Oil employees participate in a permanent program to gather such items as a means of supporting overseas health-care and autonomous development programs.

Among other activities during fiscal 1999, Cosmo Oil sponsored and invited people from welfare facilities to an international rugby competition—the Cosmo Oil Challenge Match 98—and other events. Moreover, aiming to help the physically challenged enjoy themselves independently, the Company supports such events as wheelchair soccer tournaments.

Each year, Cosmo Oil employees volunteer to help operate the Cosmo Waku Waku Camp, which helps children who have lost parents to automobile accidents enjoy nature. The annual Cosmo Christmas Concert is specially organized for audiences consisting of physically challenged children and their families. Another yearly tradition continued during the fiscal year under review was the provision of support for the KIDS Disneyland Project, which allows children from welfare facilities to enjoy a trip to Tokyo Disneyland.

For many years, Cosmo Oil has organized community outreach programs at each of its refineries. These programs encompass outdoor cleanup campaigns, sports events, and the provision of access to employee welfare facilities. To encourage its employees' volunteer spirit and participation in volunteer programs, the Company arranges a Volunteer Experience Course. During fiscal 1999, participants gained firsthand experience of the use of wheelchairs and guide dogs.

Cosmo Oil annually supplies technical support for environmental protection programs in the Middle East, Asia, Latin America, and elsewhere. During fiscal 1999, the Company sent 119 of its employees overseas to serve as technical advisors.

Since 1990, Cosmo Oil has sustained the Cosmo Earth Conscious Act Campaign, which involves the arrangement of concerts and radio programs that promote support for action to protect the global environment as well as raise funds for the World Wildlife Fund.

▲One particularly noteworthy event within the Cosmo Earth Conscious Act '98 Campaign was the "We Love Music, We Love the Earth" concert.

▲The annual Cosmo Christmas Concert is organized for audiences consisting of physically challenged children and their families.

FINANCIAL SECTION

CONTENTS

CONSOLIDATED FIVE-YEAR SUMMARY

COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries
March 31

	Millions of yen					Thousands of U.S. dollars
	1995	1996	1997	1998	1999	1999
For the year:						
Net sales	¥1,588,003	¥1,556,171	¥1,729,495	¥1,680,478	¥1,443,457	$11,929,397
Operating income	50,582	32,069	35,409	27,901	22,860	188,926
Net income	13,065	6,545	8,839	5,340	839	6,934
At year-end:						
Total shareholders' equity	183,472	185,836	189,790	190,716	186,496	1,541,289
Total assets	1,234,897	1,286,000	1,287,172	1,277,022	1,229,285	10,159,380
	Yen					U.S. dollars
Per common share:						
Net income	¥ 21.12	¥ 10.36	¥ 13.99	¥ 8.45	¥ 1.33	$ 0.01
Cash dividends	8.00	8.00	8.00	8.00	6.00	0.05
Ratios:						
Operating profit margin (%)	3.2	2.1	2.1	1.7	1.6	
Return on equity (%)	7.6	3.5	4.7	2.8	0.4	
Return on assets (%)	1.1	0.5	0.7	0.4	0.1	
Interest coverage ratio (times)	2.0	1.5	1.8	1.5	1.4	
Dividend payout ratio (%)	37.2	77.2	57.2	94.7	451.1	

Note: U.S. dollar figures are translated from yen, for convenience only, at the rate of ¥121 to US$1, the approximate rate of exchange at March 31, 1999.

Overview

During fiscal 1999, ended March 31, 1999, Japanese demand for gasoline was relatively strong, but such factors as the slackness of domestic economic conditions depressed demand for most other petroleum products. Consequently, total domestic demand for petroleum products fell below the fiscal 1998 level. Despite numerous companies' moves to improve the balance of supply and demand by reducing crude-oil-processing capacities, fierce price competition depressed the price of gasoline. Conditions for marketing industrial fuels were also severe because of a drop in demand stemming from the recessionary economic conditions in Japan.

Amid this environment, Cosmo Oil recorded consolidated net sales of ¥1,443.4 billion (US$11,929.3 million), down ¥237.0 billion, or 14.1% from the previous fiscal year. The Company's net income plunged 84.2%, or ¥4.5 billion, to ¥0.8 billion (US$6.9 million). In addition to the decrease in operating income that accompanied the decline in net sales, the fall in net income reflected a special expense of ¥6.0 billion (US$50.2 million) for the funding of an early retirement system, which is a part of the Company's corporate streamlining strategy. In light of the harsh operating environment, the parent company reduced its cash dividends applicable to the fiscal year to ¥6.00 (US$0.05) per share, ¥2.00 below the level in the previous year.

Regarding oil exploration and development activities, Cosmo Oil continued to emphasize autonomous capabilities and operations. In October 1998, the Company began pilot production of crude oil offshore Qatar.

With respect to new business, Cosmo Oil proceeded with preparations to begin IPP business in 2003 from a base in Yokkaichi, Mie Prefecture. Currently, these preparations are focusing primarily on environmental assessment studies.

Net Sales

Consolidated net sales decreased 14.1%, or ¥237.0 billion, to ¥1,443.4 billion (US$11,929.3 million). Amid severe market conditions, the volume of Cosmo Oil's refining operations declined and the overall drop in sales revenues exceeded that in procurement costs.

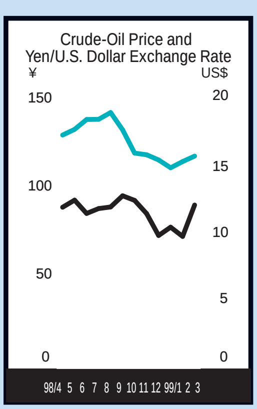
Looking at the parent company's sales of individual products, a slight rise in sales volume was offset by the effects of intensifying competition and falling gasoline prices. Accordingly, net sales of gasoline decreased. Net sales of kerosene, diesel fuel, heavy oils, and other refined petroleum products were also down, reflecting a downtrend in prices as well as the restraint of demand due to the recessionary economic conditions in Japan. The performance of other operations, in such fields as real estate and services, was also weak overall.

It is estimated that the drop in selling prices had the effect of reducing net sales by ¥188 billion.

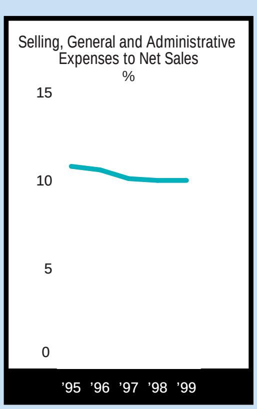
Costs, Expenses, and Earnings

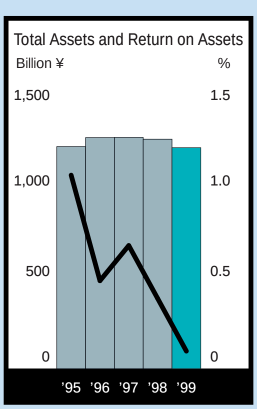
On a consolidated basis, the cost of sales decreased 14.1%, or ¥207.9 billion, to ¥1,265.4 billion (US$10,458.2 million). As this decline paralleled the drop in net sales, the ratio of cost of sales to net sales remained at 87.6%, and gross profit fell 14.0%, or ¥29.1 billion, to ¥178.0 billion (US$1,471.1 million). The Company worked to offset the increase in the burden of fixed charges due to the decline in net sales through various cost-cutting programs and the introduction of accounting systems that further reduced expenses by more accurately accounting for revenue and expense items. (The principal accounting change was the shift from the declining balance method to the straight-line method in accounting for depreciation.) Consequently, the decrease in gross profit was held to the same rate of decline as net sales. As drops in crude-oil procurement prices were generally paralleled by similar drops in retail selling prices, the lower procurement prices did not help reduce the ratio of cost of sales to net sales. During the period, per-barrel crude-oil prices averaged US$12.78, or US$4.56 lower than in the previous fiscal year. Also depressing procurement costs was the appreciation of the yen during the period; the average yen/dollar exchange rate was ¥123.68 to US$1 during the year under review, compared with ¥128.28 to US$1 during the previous year.

The Company made cost-cutting moves focused principally on selling and shipping expenses, and, as just mentioned, shifted



Yen/U.S. Dollar Exchange Rate (Left scale)
Crude-Oil Price per Barrel (Right scale)





Total Assets (Left scale)
ROA (Right scale)

from the declining balance method to the straight-line method for accounting for the depreciation of marketing facilities, which reduced its depreciation burden. Consequently, selling, general and administrative (SG&A) expenses decreased 13.4%, or ¥24.0 billion, to ¥155.1 billion (US$1,282.2 million). The ratio of SG&A expenses to net sales stood at 10.7%, or approximately the same level as recorded in the previous fiscal year. Thus, operating income totaled ¥22.8 billion (US$188.9 million), down 18.0%, or ¥5.0 billion.

Other expense, net, grew ¥5.0 billion, to ¥18.5 billion (US$152.9 million). This stemmed mainly from the recording of ¥6.0 billion in special severance payments for the early retired employees, in line with the Company's streamlining strategies. The Company also recorded a rise in the gain on the disposal of tangible assets, a drop in loss on the liquidation of subsidiaries and affiliates, and the elimination of equity in earnings of affiliates.

As a result, income before income taxes and minority interests totaled ¥4.3 billion (US$35.9 million), down 69.9%, or ¥10.1 billion, and net income dropped 84.2%, or ¥4.5 billion, to ¥0.8 billion (US$6.9 million).

Net income per share, basic, declined from ¥8.45 to ¥1.33 (US$0.01).

Financial Position

In view of the severity of its operating environment, the Company worked to concentrate its resources in strategically emphasized fields and otherwise make more-efficient use of its total capital. Accordingly, total assets decreased 3.7%, or ¥47.7 billion, to ¥1,229.2 billion (US$10,159.3 million).

Current assets dropped ¥34.5 billion, to ¥512.8 billion (US$4,238.3 million). This reflected a ¥14.6 billion drop in cash due to the use of cash to reduce interest-bearing debt as well as drops of ¥12.9 billion in inventories and ¥5.2 billion in notes and accounts receivable.

Investments in property, plant and equipment—for the purpose of constructing distillation units and installing control systems and other facilities for ensuring stable supplies at refineries as well as for the construction and remodeling of service stations—amounted to ¥31.3 billion (US$258.8 million) on a cash-flow basis. Reflecting progress in depreciation, the closure of eight product shipment depots, and the disposal of unused facilities, net property, plant and equipment fell ¥11.1 billion, to ¥591.9 billion (US$4,892.1 million).

Other assets declined ¥2.0 billion, to ¥124.4 billion (US$1,028.8 million), due to drops in long-term loans receivable and other assets, other.

Total liabilities decreased 4.0%, or ¥43.0 billion, to ¥1,018.8 billion (US$8,420.4 million). Of this, short- and long-term interest-bearing debt fell ¥11.2 billion, to ¥641.5 billion (US$5,302.1 million). Operating liabilities and other liabilities were down ¥31.8 billion, to ¥377.3 billion (US$3,118.2 billion). This principally reflected a ¥7.3 billion drop in notes and accounts payable that accompanied the reduction of inventories as well as a ¥5.6 billion decrease in income, excise and other taxes payable and a ¥19.8 billion fall in accrued expenses and other current liabilities.

Due to a decrease in retained earnings, total shareholders' equity declined ¥4.2 billion, to ¥186.4 billion (US$1,541.2 million). Reflecting the decline in liabilities, the equity ratio increased 0.2 percentage point, to 15.1%.

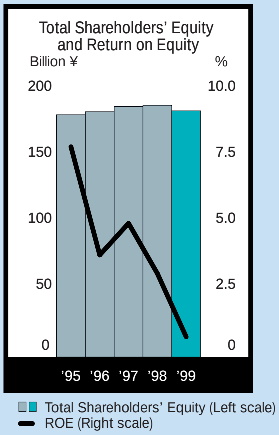
Cash Flows

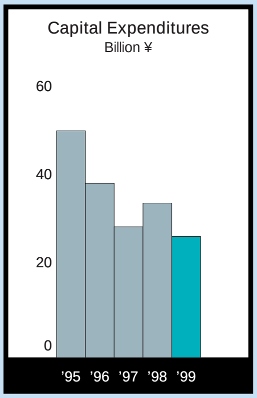
Cash decreased ¥14.6 billion during the year under review and amounted to ¥37.3 billion (US$308.7 million) at March 31, 1999. At 31% of average monthly sales (¥120.2 billion), this level of cash may appear low. Securities held as short-term investments amounted to ¥96.8 billion, however, and the total value of cash as well as such securities was ¥134.2 billion, which management is confident represents a sufficient level of liquidity.

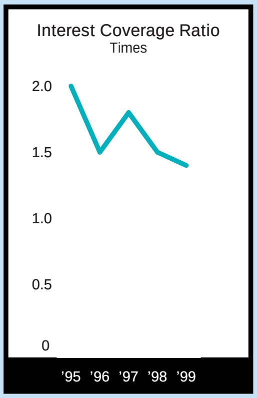
Net cash provided by operating activities decreased ¥46.8 billion, to ¥17.7 billion (US$146.4 million). Cash inflows from net income as well as such noncash items as depreciation decreased ¥19.1 billion, to ¥20.1 billion. This primarily reflected the lower level of net income as well as the previously mentioned change in the method of accounting for depreciation. Cash outflows attributable to changes in operating and other assets and liabilities were ¥2.4 billion, compared with ¥25.2 billion cash inflows during the previous year. This corresponds to a net rise of ¥27.7 billion in cash outflow.

Net cash used in investing activities decreased ¥41.7 billion, to ¥17.8 billion (US$147.1 million). While capital investment edged down ¥2.8 billion, to ¥31.3 billion (US$258.8 million), the drop in net cash used in investment activities principally reflected a ¥34.4 billion fall in the investment of surplus funds in securities, to ¥0.7 billion. In addition, cash inflows due to the sale of property, plant and equipment grew ¥5.8 billion, to ¥17.9 billion.

Net cash used in financing activities increased ¥9.2 billion, to ¥14.5 billion (US$120.5 million). This was owing to the Company's use of ¥9.5 billion of cash to reduce interest-bearing debt in line with its financial strategy. The increase in net cash used in financing activities also reflected the absence of the large-scale bond issuance that was undertaken in the previous year.







CONSOLIDATED BALANCE SHEETS

COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries
March 31, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1999	1999
ASSETS:			
Current assets:			
Cash	¥ 52,034	¥ 37,354	$ 308,711
Marketable securities (Note 7)	96,814	96,871	800,587
Notes and accounts receivable	193,050	187,830	1,552,314
Less allowance for doubtful accounts	(1,780)	(1,279)	(10,570)
	191,270	186,551	1,541,744
Inventories (Note 3)	148,190	135,200	1,117,355
Other current assets	59,100	56,862	469,933
Total current assets	547,408	512,838	4,238,330
Property, plant and equipment:			
Land	365,391	361,009	2,983,545
Buildings and structures	385,789	379,603	3,137,215
Machinery and equipment	309,645	313,488	2,590,810
Construction in progress	12,905	12,999	107,430
	1,073,730	1,067,099	8,819,000
Less accumulated depreciation	(470,628)	(475,148)	(3,926,843)
Net property, plant and equipment	603,102	591,951	4,892,157
Other assets:			
Investments in unconsolidated subsidiaries, affiliates and securities	63,544	65,745	543,347
Long-term loans receivable	15,364	13,625	112,603
Other	47,604	45,126	372,943
Total other assets	126,512	124,496	1,028,893
	¥1,277,022	¥1,229,285	$10,159,380

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1999	1999
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Current liabilities:			
Short-term loans and current maturities of long-term debt (Note 4)	¥ 267,644	¥ 278,277	$ 2,299,810
Notes and accounts payable	133,308	125,996	1,041,289
Income, excise and other taxes payable	125,446	119,781	989,926
Accrued expenses and other current liabilities	109,837	90,022	743,984
Total current liabilities	636,235	614,076	5,075,009
Long-term debt, less current maturities (Note 4)	385,125	363,285	3,002,355
Retirement and severance benefits	2,391	2,466	20,380
Other long-term liabilities	38,182	39,047	322,702
Minority interests	24,373	23,915	197,645
Contingencies (Note 5 and 6)			
Shareholders' equity:			
Common stock, par value ¥50 per share authorized–1,700,000,000 shares; issued–631,705,087 shares	51,887	51,887	428,818
Additional paid-in capital	34,092	34,092	281,752
Retained earnings	104,737	100,517	830,719
Total shareholders' equity	190,716	186,496	1,541,289
	¥1,277,022	¥1,229,285	$10,159,380

CONSOLIDATED STATEMENTS OF INCOME

COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries
Years ended March 31, 1997, 1998 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1997	1998	1999	1999
Net sales	¥1,729,495	¥1,680,478	¥1,443,457	$11,929,397
Cost of sales	1,508,186	1,473,349	1,265,443	10,458,207
Gross profit	221,309	207,129	178,014	1,471,190
Selling, general and administrative expenses	185,900	179,228	155,154	1,282,264
Operating income	35,409	27,901	22,860	188,926
Other income (expense):				
Interest and dividend income	2,343	2,076	2,177	17,992
Interest expense (Note 4)	(21,380)	(19,713)	(18,488)	(152,793)
Foreign currency exchange gain (loss)	(3,192)	1,953	2,629	21,727
Gain on disposals of property, plant and equipment	3,424	694	5,125	42,355
Equity in (losses) earnings of affiliates	1,981	1,906	(1,406)	(11,620)
Loss on liquidation of subsidiaries and affiliates	—	(2,313)	—	—
Write-down of marketable securities and investments in securities	—	(1,680)	(2,238)	(18,496)
Special severance payments for the early retired employees	(3,226)	—	(6,080)	(50,248)
Other, net	2,701	3,642	(228)	(1,884)
	(17,349)	(13,435)	(18,509)	(152,967)
Income before income taxes and minority interests	18,060	14,466	4,351	35,959
Income taxes	8,310	8,092	3,269	27,017
Income before minority interests	9,750	6,374	1,082	8,942
Minority interests	(911)	(1,034)	(243)	(2,008)
Net income	¥ 8,839	¥ 5,340	¥ 839	$ 6,934

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	¥ 13.99	¥ 8.45	¥ 1.33	$ 0.01
Diluted net income	13.47	8.27	—	—
Cash dividends	8.00	8.00	6.00	0.05

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries
Years ended March 31, 1997, 1998 and 1999

		Millions of yen		
	Number of shares of common stock (Thousands)	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1996	631,705	¥51,887	¥34,092	¥ 99,857
Net income for the year	—	—	—	8,839
Cash dividends paid	—	—	—	(5,054)
Bonuses to directors and statutory auditors	—	—	—	(134)
Increase resulting from the mergers	—	—	—	136
Increase resulting from increase in consolidated subsidiaries	—	—	—	167
Balance at March 31, 1997	631,705	51,887	34,092	103,811
Net income for the year	—	—	—	5,340
Cash dividends paid	—	—	—	(5,054)
Bonuses to directors and statutory auditors	—	—	—	(130)
Increase resulting from the mergers	—	—	—	770
Balance at March 31, 1998	631,705	51,887	34,092	104,737
Net income for the year	—	—	—	839
Cash dividends paid	—	—	—	(5,054)
Bonuses to directors and statutory auditors	—	—	—	(100)
Increase resulting from the mergers	—	—	—	95
Balance at March 31, 1999	631,705	¥51,887	¥34,092	¥100,517

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1998	$428,818	$281,752	$865,595
Net income for the year	—	—	6,934
Cash dividends paid	—	—	(41,768)
Bonuses to directors and statutory auditors	—	—	(826)
Increase resulting from the mergers	—	—	784
Balance at March 31, 1999	$428,818	$281,752	$830,719

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, 1997, 1998 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1997	1998	1999	1999
Cash flows from operating activities:				
Net income	¥ 8,839	¥ 5,340	¥ 839	$ 6,934
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	35,738	34,228	21,773	179,942
Gain on disposals of property, plant and equipment	(3,424)	(694)	(5,125)	(42,355)
Write-down of marketable and investment securities	—	1,680	2,238	18,496
Gain on redemption of convertible bonds	—	(1,524)	(1,199)	(9,909)
Loss on collectible accounts receivable	—	2,313	974	8,050
Exchange gains on forward exchange contracts	(699)	(670)	—	—
Effect of decrease of consolidated subsidiaries	—	—	(289)	(2,388)
Bonuses to directors and statutory auditors	(134)	(130)	(100)	(826)
Decrease (increase) in other assets	(1,319)	(2,244)	2,221	18,355
Increase (decrease) in retirement and severance benefits	(1,708)	58	84	694
Equity in losses (earnings) of affiliates	(1,981)	(1,906)	1,406	11,620
Increase (decrease) in minority interests	910	530	(459)	(3,793)
Effect of increase of consolidated subsidiaries	752	—	—	—
Other, net	(416)	4	18	149
(Increase) decrease in current assets:				
Notes and accounts receivable	(29,433)	16,098	4,274	35,322
Inventories	(10,972)	19,899	10,410	86,033
Other current assets	(5,083)	279	6,242	51,587
Increase (decrease) in current liabilities:				
Notes and accounts payable	20,668	(48,031)	(7,009)	(57,926)
Income, excise and other taxes payable	(31,616)	38,755	(5,655)	(46,736)
Accrued expenses and other current liabilities	(6,667)	673	(16,790)	(138,761)
Increase (decrease) in other long-term liabilities	992	(100)	3,865	31,942
Net cash provided by (used in) operating activities	(25,553)	64,558	17,718	146,430
Cash flows from investing activities:				
Purchases of property, plant and equipment	(31,021)	(34,175)	(31,325)	(258,884)
Proceeds from disposals of property, plant and equipment	18,714	12,144	17,945	148,305
(Increase) decrease in marketable securities	24,425	(35,179)	(753)	(6,223)
Increase in investments in unconsolidated subsidiaries, affiliates and securities	(1,181)	(5,816)	(5,099)	(42,140)
Decrease in long-term loans receivable	2,893	3,582	1,426	11,785
Effect of the mergers	142	(88)	—	—
Net cash provided by (used in) investing activities	13,972	(59,532)	(17,806)	(147,157)
Cash flows from financing activities:				
Proceeds from long-term loans payable	40,527	42,799	67,716	559,636
Repayments on long-term loans payable	(62,534)	(50,178)	(47,839)	(395,364)
Proceeds from issuing straight bonds	—	45,000	—	—
Repayments on notes with warrants	—	(28,896)	—	—
Increase (decrease) in short-term loans	29,126	(8,966)	(29,415)	(243,099)
Cash dividends paid	(5,054)	(5,054)	(5,054)	(41,768)
Net cash provided by (used in) financing activities	2,065	(5,295)	(14,592)	(120,595)
Net decrease in cash	(9,516)	(269)	(14,680)	(121,322)
Cash at beginning of year	61,819	52,303	52,034	430,033
Cash at end of year	¥52,303	¥52,034	¥37,354	$308,711

The accompanying notes are an integral part of these statements.

COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries

1

SUMMARY OF ACCOUNTING POLICIES

(1) Basis of preparation of consolidated financial statements

Cosmo Oil Company, Limited, (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with MOF.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1999, which was ¥121 to U.S.$1.00. 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. Significant intercompany balances and transactions have been eliminated in the consolidation.

The excess of cost over net assets of subsidiaries acquired is amortized on a straight-line basis over a period of five years.

Investments in significant affiliates (20% to 50% owned) are accounted for by the equity method after the elimination of unrealized intercompany profits.

The number of consolidated subsidiaries and affiliates under the equity method at March 31, 1997, 1998 and 1999 were as follows:

	1997	1998	1999
Consolidated subsidiaries	23	21	18
Affiliates	3	3	3

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

(3) Translation of foreign currencies

Cash denominated in foreign currencies is translated at exchange rates prevailing at the balance sheet date.

Other assets and liabilities denominated in foreign currencies are translated into Japanese yen primarily at the historical rates of exchange except for the payables in foreign currencies covered by forward exchange contracts, which are recorded at the contracted rates.

The financial statements of foreign consolidated subsidiaries are translated into Japanese yen at the current rate except for shareholders' equity, which is translated at the historical rates. The difference resulting from the translation is included in the accompanying consolidated balance sheets as a part of "Accrued expenses and other current liabilities."

(4) Allowance for doubtful accounts

Notes and accounts receivable are valued by providing the maximum amount for possible losses with respect to doubtful accounts which could be charged to income under the income tax laws in Japan plus individually estimated uncollectible amounts.

(5) Marketable securities and investments in securities

Marketable securities and investments in securities are valued at their cost determined by the moving average method.

(6) Inventories

Finished products, semi-finished products and materials are primarily stated at cost determined by the last-in, first-out method ("LIFO").

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

(7) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets primarily using the declining balance method. Effective April 1, 1998, due to the new tax law, the Companies have shortened the estimated useful lives for buildings. As a result of this change, both operating income and income before income taxes for the year ended March 31, 1999, decreased by approximately ¥89 million ($736 thousand).

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 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 charged to income as incurred.

(8) Retirement and severance benefits and pension costs

Employees of the Company and its consolidated subsidiaries are entitled, in most circumstances, to lump-sum severance payments on retirement or otherwise based on current rates of pay, length of service and certain other factors.

The Company and its consolidated subsidiaries provide for such liability, for severance benefits to the extent of 100% of the benefits computed on the assumption that all employees voluntarily terminate their employment at each year-end less those benefits covered by a non-contributory trusteed pension plan as discussed below. Such liability is not funded.

Most employees with 10 years or more of continuous service with the Company and its consolidated subsidiaries are covered by a non-contributory trusteed defined benefit pension plan.

The past service costs relating to the funded pension plan were amortized using declining balance basis at 20%.

(9) Finance leases

Finance leases except those leases for 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.

(10) Shareholders' equity

Under the Japanese Commercial Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999. Previously it was presented as a separate component of the shareholders' equity. The accompanying consolidated financial statements for the years ended March 31, 1997 and 1998 have been reclassified to conform to the 1999 presentation.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Commercial Code subject to certain covenant regarding convertible bonds (see Note 4).

(11) Issuance costs of corporate bonds

Issuance costs of corporate bonds were charged to income in the fiscal year incurred.

(12) Income taxes

The Company and its consolidated subsidiaries are subject to a number of different taxes on income which, in the aggregate, resulted in statutory tax rates of approximately 52% for the years ended March 31, 1997 and 1998. The statutory tax rate for the year ended March 31, 1999 was approximately 46%. The tax effect on temporary differences between taxable income and income before income taxes for financial reporting purposes is not reflected on the accompanying consolidated financial statements.

(13) Amortization of consolidation difference

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, amortization of consolidation difference is included in selling, general and administrative expense. Prior year amounts, which were presented between income tax expense and net income, have been reclassified to conform to the 1999 presentation.

(14) Equity in earnings of affiliates

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, equity in earnings (losses) of affiliates is included in other income (expenses). Prior year amounts, which were presented between income taxes and net income, have been reclassified to conform to the 1999 presentation.

(15) Net income per share

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

Net income per share, assuming all potential shares were converted, was not diluted for the year ended March 31, 1999.

(16) Reclassifications

Certain prior year amounts have been reclassified to conform to 1999 presentation.

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

2

CHANGES IN ACCOUNTING POLICY

(1) Change of depreciation method

Effective April 1, 1998, the Company changed the depreciation method of property, plant and equipment from declining-balance basis to the straight-line basis.

The reason for changing the depreciation method was that as the Company revised the future investments' policy because of considerable and rapid change of the petroleum industry's operating environment, it is considered to compute more appropriate depreciation on Financial Statements by adopting the straight-line method.

Another reason of this change was due to the change of tax law, which allows only straight-line method of depreciation regarding buildings and structures acquired on or after April 1, 1998.

As a result of this change, the depreciation expense was decreased by ¥8,716 million ($72,033 thousand) and the income before income taxes was increased by ¥8,708 million ($71,967 thousand) for the year ended March 31, 1999.

(2) Change of valuation method of inventories

Effective April 1, 1998, Cosmo Petroleum Gas Co., Ltd., a wholly-owned consolidated subsidiary, changed the valuation method of purchased gas inventories from the average method to LIFO method.

Recently, importing gas price has been altered drastically and to compute more appropriate gross profit from the gas sales, Cosmo Petroleum Gas Co., Ltd. has decided to adopt the LIFO method.

As a result of this change, the cost of sales was decreased by ¥1,304 million ($10,777 thousand) and the income before income taxes was increased by ¥1,304 million ($10,777 thousand) for the year ended March 31, 1999.

3

INVENTORIES

Inventories at March 31, 1998 and 1999 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1999	1999
Finished products	¥ 46,736	¥ 39,475	$ 326,240
Semi-finished products	28,603	25,467	210,471
Materials—crude oil, auxiliary materials, etc.	38,971	36,297	299,975
Supplies—spare parts, etc.	4,252	7,810	64,545
In-transit crude oil and oil products	29,469	26,056	215,339
Others	159	95	785
Total	¥148,190	¥135,200	$1,117,355

4

SHORT-TERM LOANS AND LONG-TERM DEBT

Included in short-term loans at March 31, 1998 and 1999 were import bills payable and import financing bills payable to banks aggregating ¥4,172 million and ¥2,142 million (US$17,702 thousand), respectively. These bills bear interest from 5.92% to 6.21% and from 5.33% to 5.95%, per annum, respectively, and mature at various dates, mainly 45 days after issuance. The remaining short-term loans of ¥197,585 million and ¥187,436 million (US$1,549,058 thousand), at March 31, 1998 and 1999, respectively, from banks bore interest from 0.75% to 3.60% and from 0.57% to 3.60%, 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 such banks, the Company and its consolidated subsidiaries shall provide collateral (including sums on deposit with such banks) or a guarantee immediately upon request from the banks and that any collateral furnished, pursuant to such agreement or otherwise, will be applicable to all indebtedness to such banks.

Commercial paper of ¥27,600 million at March 31, 1998 and ¥10,000 million (US$82,645 thousand) at March 31, 1999 bore interest from 1.10% to 1.70% per annum and from 0.39% to 0.49% per annum, respectively.

Short-term loans at March 31, 1998 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1999	1999
Short-term bank loans	¥201,757	¥189,578	$1,566,760
Current maturities of long-term debt	38,287	78,699	650,405
Commercial paper	27,600	10,000	82,645
Total	¥267,644	¥278,277	$2,299,810

Long-term debt at March 31, 1998 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1999	1999
Loans from banks, insurance companies and other financial institutions, secured, with interest at 0.9%–7.7%, due serially through 2027	¥261,923	¥290,155	$2,397,975
4.4% unsecured convertible yen bonds due 2001	48,000	44,535	368,057
3.4% unsecured convertible yen bonds due 2000	39,798	38,816	320,793
1.1% unsecured convertible yen bonds due 2005	28,476	23,478	194,033
2.8% unsecured straight yen bonds due 2003	15,000	15,000	123,967
3.3% unsecured straight yen bonds due 2007	10,000	10,000	82,645
3.15% unsecured straight yen bonds due 2007	10,000	10,000	82,645
2.30% unsecured straight yen bonds due 2002	10,000	10,000	82,645
	423,412	441,984	3,652,760
Less current maturities	(38,287)	(78,699)	(650,405)
Total	¥385,125	¥363,285	$3,002,355

The aggregate annual maturities of long-term debt at March 31, 1999 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2000	¥ 78,699	$ 650,405
2001	71,175	588,223
2002	36,420	300,992
2003	48,422	400,182
2004 and thereafter	207,268	1,712,958
	¥441,984	$3,652,760

The 4.4% unsecured convertible yen bonds in the aggregate principal amount of ¥48,000 million were issued in October 1991. The bonds are subject to conversion currently at ¥900 (US$7.44) for one share of the common stock of the Company from December 2, 1991 to March 29, 2001. At March 31, 1999, 49,483 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, 1996, in whole or in part at prices which range from 104% to 100% of the principal amount plus interest accrued.

The 3.4% unsecured convertible yen bonds in the aggregate principal amount of ¥40,000 million were issued in March 1993. The bonds are subject to conversion currently at ¥751 (US$6.21) for one share of the common stock of the Company from April 1, 1993 to March 30, 2000. At March 31, 1999, 51,686 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, 1997, in whole or in part at prices which range from 102% to 100% of the principal amount plus interest accrued.

The 1.1% unsecured convertible yen bonds in the aggregate principal amount of ¥30,000 million were issued in March 1994. The bonds are subject to conversion currently at ¥877 (US$7.25) for one share of the common stock of the Company from April 1, 1994 to March 30, 2005. At March 31, 1999, 26,771 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 which range from 104% to 100% of the principal amount plus interest accrued. The Company redeemed a part of bonds from the market in the fiscal year.

So long as the 4.4% bonds are outstanding, the cumulative amounts of payments of cash dividends may not exceed ¥6,600 million (US$54,545 thousand) plus the Company's cumulative net income for the fiscal years following March 31, 1992. And so long as the 3.4% bonds are outstanding, the cumulative amounts of payments of cash dividends may not exceed ¥6,700 million (US$55,372 thousand) plus the Company's cumulative net income for the fiscal years following March 31, 1993. And so long as the 1.1% bonds are outstanding, the cumulative amounts of payments of cash dividends may not exceed ¥7,300 million (US$60,331 thousand) plus the Company's cumulative net income for the fiscal years following March 31, 1994.

5 LEASES

Lease payments of finance leases without ownership transfer to the lessee for the years ended March 31, 1998 and 1999 were ¥824 million and ¥747 million (US$6,174 thousand), respectively.

Total lease commitments as of March 31, 1999, inclusive of interest expense under such leases, were ¥1,895 million and ¥1,471 million (US$12,157 thousand), including ¥728 million and ¥583 million (US$4,818 thousand) due within one year.

Equivalent of acquisition cost, accumulated depreciation and book value of leased properties for the year ended March 31, 1999, were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Machineries & vehicles	Other	Total	Machineries & vehicles	Other	Total
Acquisition cost	¥2,139	¥1,975	¥4,114	$17,678	$16,322	$34,000
Accumulated depreciation	(1,271)	(1,372)	(2,643)	(10,504)	(11,339)	(21,843)
Book value	¥ 868	¥ 603	¥1,471	$ 7,174	$ 4,983	$12,157

6 CONTINGENCIES

(a) Contingent liabilities for notes receivable discounted at banks with recourse and endorsed to others at March 31, 1999 were ¥160 million (US$1,322 thousand).

(b) Contingencies at March 31, 1999 for loans guaranteed, in the ordinary course of business, by the Company and its consolidated subsidiaries, mainly for unconsolidated subsidiaries and affiliates were ¥48,257 million (US$398,818 thousand).

7

MARKET VALUE INFORMATION—THE COMPANY (NON-CONSOLIDATED) ONLY

At March 31, 1998 and 1999, book value, market value and net unrealized gains (losses) of marketable securities in current assets of the Company (non-consolidated) were as follows:

	Millions of yen		
	1998		
	Book value	Market value	Unrealized gains (losses)
Current assets			
Shares	¥46,042	¥42,698	¥(3,344)
Bonds	1,548	1,377	(171)
	¥47,590	¥44,075	¥(3,515)

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	1999			1999		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Current assets						
Shares	¥42,500	¥39,587	¥(2,913)	$351,240	$327,165	$(24,075)
Bonds	1,337	1,088	(249)	11,049	8,992	(2,057)
	¥43,837	¥40,675	¥(3,162)	$362,289	$336,157	$(26,132)

Non-marketable shares, beneficiary certificates of investment funds with small risk of price fluctuation and unlisted marketable bonds due within one year are excluded from the above table.

There are no marketable securities in non-current assets of which market value information is required to be disclosed.

8

DERIVATIVE TRANSACTIONS—THE COMPANY (NON-CONSOLIDATED) ONLY

Derivative financial instruments currently utilized by the Company include currency forward contracts, option interest rate swap contracts and forward contracts of crude oil or refined products, all of which are for hedging purposes.

The Company uses foreign currency forward contracts and option contracts to offset its exposure to market risks arising from changes in foreign exchange rate. The Company enters into interest rate swap agreements which exchange floating rate payment obligations to fixed rate payment obligations to reduce the Company's exposure to adverse movements in interest rates. The Company also utilizes commodity forward contracts to hedge crude oil and refined products against the effects of fluctuations in their prices.

Foreign currency forward contracts, interest rate swap contracts and option contracts are implemented by the Finance Department in accordance with internally authorized rule. Forward contracts of crude oil and refined products are implemented by the Demand & Supply Coordination Department and the International Petroleum Department in accordance with internally authorized rule.

At March 31, 1999, the Company had outstanding off-balance derivative transactions as below:

(1) Currency

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Contract amounts in ¥ equivalent	Market value	Unrealized gain	Contract amounts in ¥ equivalent	Market value	Unrealized gain
Option contracts purchased						
Call U.S. dollars	¥3,542	¥118	¥32	$29,273	$975	$264

(2) Interest rate

	Millions of yen				
	Notional amount			Market value	Unrealized loss
Interest rate swap contracts	Due within one year	Due after one year	Total		
Pay fixed rate, receive floating rate	¥—	¥39,700	¥39,700	¥(2,145)	¥(2,145)

	Thousands of U.S. dollars (Note 1)				
	Notional amount			Market value	Unrealized loss
Interest rate swap contracts	Due within one year	Due after one year	Total		
Pay fixed rate, receive floating rate	$—	$328,099	$328,099	$(17,727)	$(17,727)

(3) Commodity

	Thousands of barrels			Millions of yen	
	Notional amount			Market value	Unrealized gain
Forward purchased contracts	Due within one year	Due after one year	Total		
Crude oil	400	—	400	¥39	¥39
Refined products	19	19	19	¥—	¥—

	Thousands of U.S. dollars (Note 1)	
	Market value	Unrealized gain
Crude oil	$322	$322
Refined products	$ —	$ —

9 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.

Business segment information is not required to be disclosed as either sales, operating income and assets of the oil business segment exceed 90% of total segment sales (including intersegment sales or transfers), operating income of all segments which did not record any operating loss, and total segment assets, respectively.

Geographical segment information is not required to be disclosed as sales outside Japan are less than 10% of consolidated net sales.

Sales to foreign customers are not required to be disclosed as such sales are less than 10% of consolidated net sales.

10 SUBSEQUENT EVENTS

(1) The Board of Directors resolved to offer the early retirement from April 8, 1999 through May 25, 1999 to enhance overall competitiveness, productivity and efficiency through the reduction of overhead costs and 466 employees have accepted the retirement. The Company made severance payments of ¥6,711 million ($55,463 thousand) for their special retirements. The effect of the payment will decrease income before income taxes by ¥6,711 million ($55,463 thousand) for the year ended March 31, 2000.

(2) On June 29, 1999, the Company's annual shareholders' meeting approved the following:

(a) Payment of a year-end cash dividend of ¥3.00 (US$0.03) per share, or a total of ¥1,895 million (US$15,661 thousand) to shareholders of record, at March 31, 1999.

(b) Transfer from retained earnings to legal reserve of ¥190 million (US$1,570 thousand).

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries

ASAHI & CO
ARTHUR ANDERSEN

ASAHI & CO
ARTHUR ANDERSEN

CERTIFIED PUBLIC ACCOUNTANTS
(ASAHI KANSA-HOJIN)

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

We have audited the accompanying consolidated balance sheets of COSMO OIL COMPANY, LIMITED (a Japanese corporation) and subsidiaries as of March 31, 1998 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1999, all expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of COSMO OIL COMPANY, LIMITED and subsidiaries as of March 31, 1998 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except for the change, with which we concur, made as of April 1, 1998, in the methods of accounting for depreciation method and valuation method of inventories referred to in Note 2.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 29, 1999

Statement of Accounting Principles and Auditing Standards
This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

MAJOR SUBSIDIARIES AND AFFILIATES

(As of March 31, 1999)

JAPAN

Development & Purchase

*Abu Dhabi Oil Co., Ltd. (Japan)
- Tokyo
- ¥10,090 million
- 51.13%
- Petroleum exploration and production

Cosmo Oil Ashmore Ltd.
- Tokyo
- ¥492 million
- 60.09%
- Crude-oil development

United Petroleum Development Co., Ltd.
- Tokyo
- ¥33,888 million
- 13.34%
- Petroleum exploration and production

#Mubarraz Oil Co., Ltd.
- Tokyo
- ¥32,877 million
- 20.30%
- Petroleum exploration and production

Transportation

*Cosmo Tanker Co., Ltd.
- Tokyo
- ¥490 million
- 100.00%
- Marine transportation

Cosmo Kaiun Co., Ltd.
- Tokyo
- ¥330 million
- 50.00%
- Marine transportation and shipping agency

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

Production

*Cosmo Matsuyama Oil Co., Ltd.
- Tokyo
- ¥500 million
- 100.00%
- Manufacture and sale of petrochemical products

#Maruzen Petrochemical Co., Ltd.
- Tokyo
- ¥10,000 million
- 30.00%
- Petrochemical development

#Kashima Oil Co., Ltd.
- Tokyo
- ¥20,000 million
- 21.60%
- Oil refining

Distribution & Storage

Yokkaichi LPG Terminal Co., Ltd.
- Tokyo
- ¥1,600 million
- 55.00%
- LPG import agency, storage, and shipment

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

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

Ogishima Oil Terminal Co., Ltd.
- Kanagawa Pref.
- ¥1,000 million
- 50.00%
- Oil storage

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

Sakaide Cosmo Kosan Co., Ltd.
- Kagawa Pref.
- ¥30 million
- 100.00%
- Marine transport agency and port services

Nihon Asphalt Co., Ltd.
- Tokyo
- ¥200 million
- 50.00%
- Delivery of asphalt

Sales

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

*Cosmo Petroleum Gas Co., Ltd.
- Tokyo
- ¥300 million
- 100.00%
- Import and sales of LPG

*Cosmo Asphalt Co., Ltd.
- Tokyo
- ¥300 million
- 98.09%
- Asphalt sales

Toyo Kokusai Oil Co., Ltd.
- Tokyo
- ¥232 million
- 46.81%
- Oil sales

Affiliated Dealers

*Kitakanto Sekiyu Co., Ltd.
- Gunma

*Tokyo Cosmo Oil Service Corp.
- Tokyo

*Koa Shoji Co., Ltd.
- Mie

*Osaka Cosmo Sekihan Co., Ltd.
- Kyoto

*Shikoku Cosmo Sekihan Co., Ltd.
- Kochi

*Kyushu Cosmo Sekihan Co., Ltd.
- Fukuoka

Research & Development

Cosmo Research Institute
- Tokyo
- ¥200 million
- 100.00%
- Research and development

Cosmo Engineering Co., Ltd.
- Tokyo
- ¥385 million
- 50.00%
- General plant and equipment engineering

*Cosmo Bio Co., Ltd.
- Tokyo
- ¥300 million
- 100.00%
- Import, export, and sales of diagnostic and medical instruments

Others

*Cosmo Ventures Inc.
- Tokyo
- ¥1,730 million
- 100.00%
- New business development

Cosmo Advertising Co., Ltd.
- Tokyo
- ¥50 million
- 100.00%
- Planning and production of advertisements and various publications

Cosmo Trade & Service Co., Ltd.
- Tokyo
- ¥200 million
- 50.00%
- Service-station-related business and other services

Cosmo Computer Center Co., Ltd.
- Tokyo
- ¥50 million
- 100.00%
- Computer business consignee

OVERSEAS

*Cosmo Oil International Pte., Ltd.
- Singapore
- S$3,250,000
- 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

Cosmo Lubricants (Thailand) Pte., Ltd.
- Bangkok
- B5,000,000
- 34.30%
- Lubricating oil sales

Cosmic Oil Co., Ltd.
- Bangkok
- B30,000,000
- 49.00%
- Blending of lubricating oil

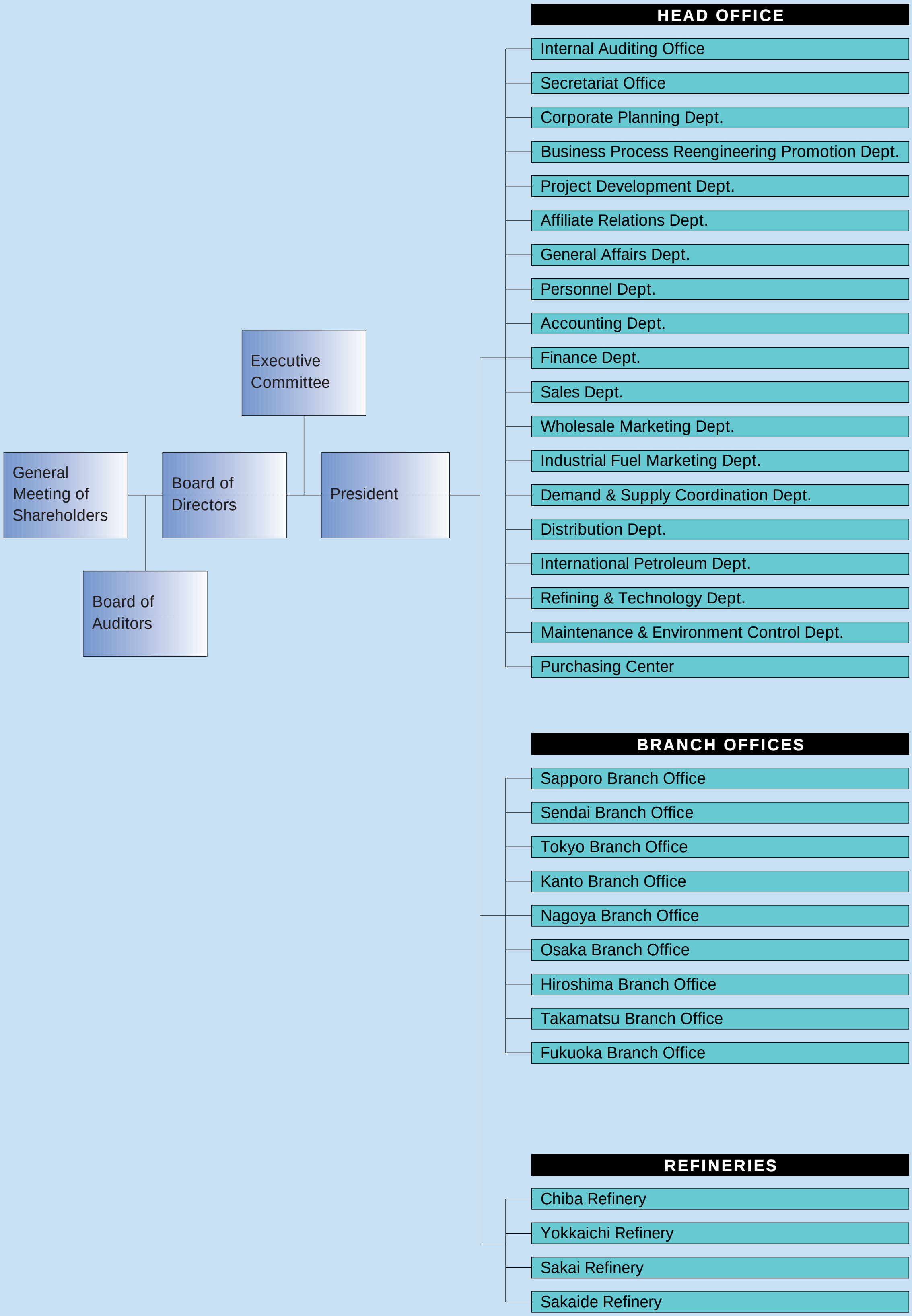
Cosmo Lubricants (Taiwan) Co., Ltd.
- Taipei
- N.T.$60,000
- 100.00%
- Lubricating oil sales

- Location
- Paid-in Capital
- Direct Equity Participation (%)
- Principal Business

(*Consolidated, #Consolidated by the equity method)

ORGANIZATION CHART

(As of June 29, 1999)



(As of March 31, 1999)

COSMO OIL CO., LTD.

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

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, and Niigata

Number of Employees
2,677

Number of Dealers
511

Number of Gas Stations Owned
6,481

Number of Branches
9

Number of Shareholders
41,268

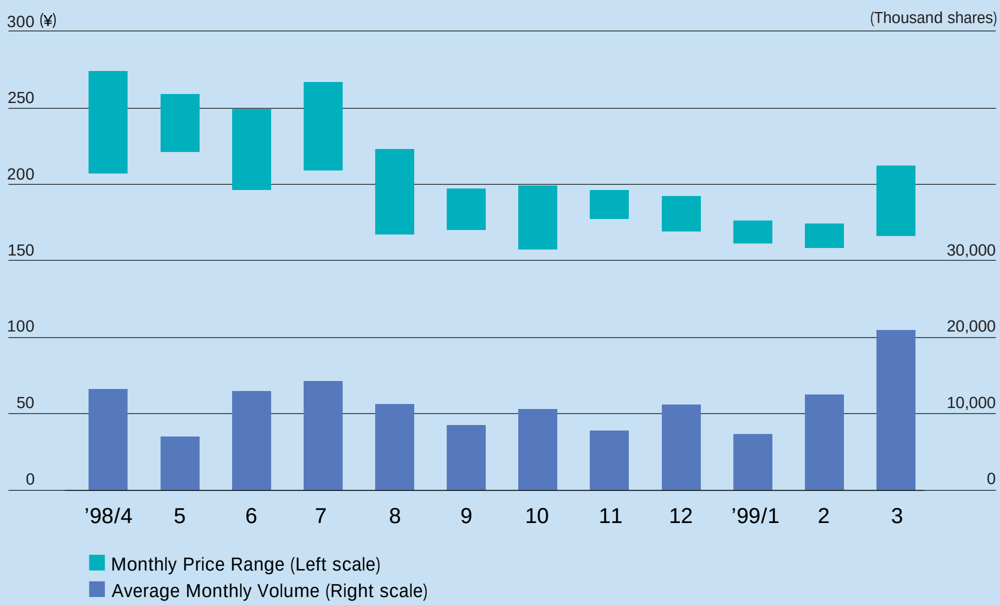
Transfer Agent
The Chuo Trust & Banking Co., Ltd.
7-1, Kyobashi 1-chome,
Chuo-ku, Tokyo 104-0031, Japan

Independent Certified Public Accountants
Asahi & Co.

Principal Shareholders

	Number of shares owned (Thousands)	Percentage of total shares issued
The Industrial Bank of Japan, Limited	30,331	4.80%
The Sanwa Bank, Limited	24,609	3.89
Cosmo Oil Employees' Shareholding Association	18,946	2.99
The Kansai Electric Power Company, Incorporated	18,600	2.94
The Tokio Marine and Fire Insurance Company, Limited	16,337	2.58
The Sumitomo Marine and Fire Insurance Company, Limited	15,932	2.52
The Sumitomo Trust and Banking Company, Limited	15,800	2.50
The Bank of Tokyo-Mitsubishi, Limited	15,115	2.39
The Yasuda Fire and Marine Insurance Company, Limited	14,476	2.29
The Toyo Trust and Banking Company, Limited	12,816	2.02

Price Range of Stock and Trading Volume



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