COSMO OIL

Marketing, Refining, Distribution, Sourcing, R&D, Environmental Protection, Community Involvement

ANNUAL REPORT 2000 Year ended March 31, 2000

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 to the refining and marketing of petroleum products. The Cosmo Oil Group currently comprises 178 subsidiaries and affiliates. Consolidated net sales amounted to ¥1.58 trillion (US$14.95 billion) in the fiscal year ended March 31, 2000.

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 455 dealers and 6,105 service stations. The Company engages in a wide range of R&D work aimed at creating high-quality products as well as 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.

COSMO

The company name was derived from *cosmos*—a Greek word meaning "universe," "world," "order," and "harmony."

The four company colors—white, red, blue, and green—represent "origin" (purity), "energy" (power), "universe" (youth), and "Earth" (warmth), respectively.

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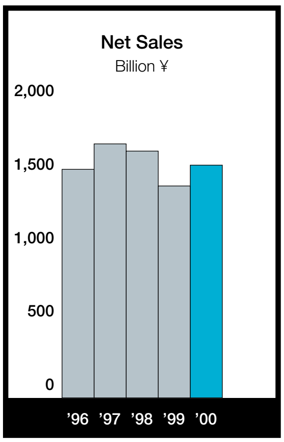
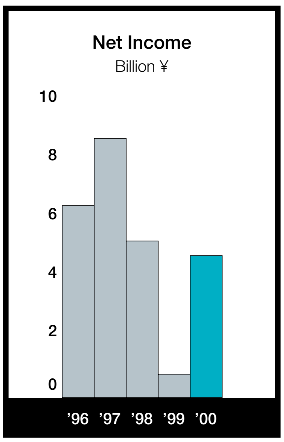
FINANCIAL & OPERATING HIGHLIGHTS

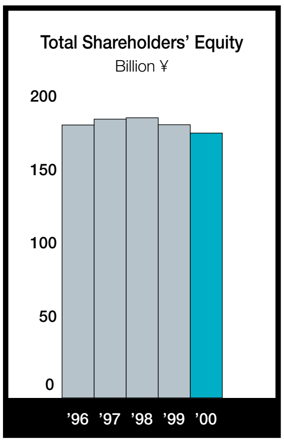
COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries
Years ended March 31, 1998, 1999 and 2000

	Millions of yen			Thousands of U.S. dollars
	1998	1999	**2000**	**2000**
For the year:				
Net sales	¥1,680,478	¥1,443,457	**¥1,584,678**	**$14,949,793**
Operating income	27,901	22,860	**16,665**	**157,217**
Net income	5,340	839	**4,841**	**45,670**
At year-end:				
Total shareholders' equity	190,716	186,496	**180,386**	**1,701,755**
Total assets	1,277,022	1,229,285	**1,295,693**	**12,223,519**
	Yen			U.S. dollars
Per common share:				
Net income	¥ 8.45	¥ 1.33	**¥ 7.76**	**$ 0.07**
Cash dividends	8.00	6.00	**6.00**	**0.06**

Note: U.S. dollar figures are translated from yen, for convenience only, at the rate of ¥106 to US$1, the approximate rate of exchange at March 31, 2000.







Keiichiro Okabe
Chairman and Chief Executive Officer

Fiscal 2000 Operating Environment and Performance

The Japanese economy remained in a severe state during fiscal 2000, ended March 31, 2000. On the positive side, corporate earnings trended toward improvement on the back of aggressive public-works spending and other government-initiated stimulus measures, corporate initiatives into structural reform, and expansion in exports fueled by the sustained robustness of the U.S. economy and rapid recovery of the Asian economies. At the same time, however, recovery in demand from the private sector was weak amid a worsening domestic unemployment situation as well as sluggish capital spending and personal consumption. Against this broad backdrop, domestic demand for petroleum products increased roughly 2% above the level of fiscal 1999. Demand for light oil and heavy oil C, hit by the depressed economy, decreased year-on-year; demand for gasoline, kerosene,

BOLD FINANCIAL STRATEGIES

The Securitization of Service Stations

Reducing Interest-Bearing Debt through Securitization and Other Measures

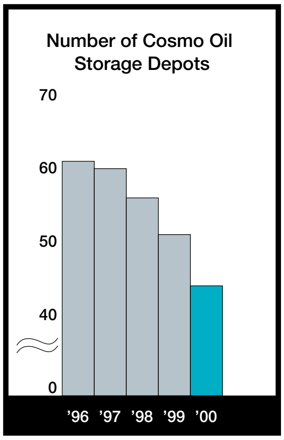
Today, amid accelerating mergers of financial institutions and corporate tie-ups and reorganization, the market is viewing corporate financial structures with renewed importance, as exemplified by revisions in accounting standards. At Cosmo Oil, a company that was born from a corporate merger in 1986, the enhancement of financial structure has been an issue accorded utmost importance since the Company's founding. Today, at a time when the oil industry stands at a critical crossroads under the effects of sluggish prices for petroleum products and high crude oil prices, the Company is carrying out financial strategies to enable it to secure the utmost cost-competitiveness. These strategies embrace a host of new measures, including structured financing.

One of the pillars of the Company's new financial strategies focuses on streamlining balance sheets through reductions in interest-bearing debt. Today, Cosmo Oil is in the midst of a program designed to slash ¥200 billion from the Company's consolidated interest-bearing debt, which stood at ¥687.5 billion at the end of March 2000. In June 2000, the Company became the first primary oil distributor to securitize its company-owned service station assets. This initiative, which has attracted attention as the first securitization in Japan in the form of an aggregation of small properties, enables the liquidation of applicable service station assets while fully maintaining the relationship between the Company and the operators of its service stations. Under this securitization initiative, the 396 service stations under the Company's ownership have been pooled and sold, for ¥42.0 billion, to a special purpose company (SPC). Using these assets as collateral, the SPC has floated ¥33.6 billion in corporate bonds as a means of raising capital. These corporate bonds have already acquired an "Aa" rating from the American credit rating firm Moody's.

heavy oil A, and naphtha held relatively firm.

The price of crude oil increased by a wide margin during the term. In April 1999, at the start of fiscal 2000, Dubai crude prices were hovering slightly above US$14 per barrel; by early March 2000, those prices had soared to more than US$28 due to coordinated production cutbacks by oil-producing nations at the start of the term, reduced inventories, and severe cold waves which hit both the United States and Europe. As of the end of March 2000, however, the price had fallen back somewhat, to near US$24 per barrel, following a decision by OPEC members to boost their output.

The value of the yen also strengthened considerably through the term. In April 1999, the yen was trading at roughly ¥118 to US$1, but by May, in tandem with a growing spread between U.S. and Japanese interest rates, the yen had weakened to approximately ¥124 to US$1. The tide then turned as expectations



of Japan's economic recovery took hold, and the yen appreciated to ¥102 to US$1 by December. A correction ensued from January 2000, however, after financial authorities intervened in the market, and the finance ministers and central bank directors of the G8 nations issued a joint communique. At the end of the fiscal period, the yen had retreated moderately, to around ¥106 to US$1.

The situation surrounding the market prices of petroleum products also remained quite severe during the year. On the positive side, the environment affecting the supply and demand balance underwent some improvement as the result of an overall decline in the volume of oil processing. Nonetheless, harsh competition in the market prevented oil companies in Japan from fully offsetting their higher crude oil costs through corresponding increases in their selling prices.

To cope with this challenging operating environment, Cosmo Oil Co., Ltd., made concerted Company-wide efforts to achieve two sets of targets: those outlined in the New Structural Reform Plan, an initiative introduced in fiscal 1999 and focused on the achievement of enhanced operating efficiency; and those described in the Major Fundamental Reforms, a newly formulated set of measures targeting further rationalization and greater competitive strength. In addition, to cope with intensifying competition, in October 1999 the Company entered a comprehensive business tie-up with

This securitization, we believe, will be effective in enhancing the Company's financial structure in several important ways. First, it permits capital to be raised even as service stations continue to operate. Second, as service stations of poor operating efficiency are being sold off while the initiative is in progress, a network of outstanding service stations will be achieved by the time the securitization program ends. Third, by taking in capital when the corporate bonds are floated, the Company is able to undertake further investments and make further reductions in its interest-bearing debt.

In addition to securitization, balance sheet streamlining is also being pursued through the sale of idle assets and reduction of bills and accounts receivable, and we are considering the unification of the Company's 12 equity-based sales firms as well as the liquidation of sales credit. Furthermore, in addition to disposing of idle assets—including storage depots shut down in tandem with efficiency-enhancement measures—and consolidating our affiliated operations, we aim to reduce our interest-bearing liabilities to the target level and thereby streamline our balance sheets in line with our Major Fundamental Reforms, which call for enhancing the soundness of our operating base.

Diversification of Fund-Raising and Enhancement of Corporate Value

Another pillar of the Company's financial strategies calls for stable and efficient fund-raising coupled with the effective utilization of such funds. Cosmo Oil is now seeking to diversify its fund-raising initiatives by aiming for a proper balance between funds borrowed from financial institutions and capital attracted from the market. The Company is now raising funds in the market in preparation for ¥44.5 billion in redemptions of convertible bonds that will come due in March 2001. Current progress in this area suggests the goal will be achieved. Simultaneously, the Company is undertaking new investments on a selective basis within the limits of its capital reserves. These investments center on environmental enhancement and related businesses as well as the consolidation of the Company's affiliated operations.

Nippon Mitsubishi Oil Corporation, targeted at achieving efficiency beyond the framework of a single enterprise. In line with the tie-up arrangement, measures have been taken to enable cost reductions in oil procurement, refining, and distribution.

The Company improved its marketing systems during fiscal 2000 in a number of ways. The sales structure was simplified to expedite decision-making procedures—permitting a swift response to changes occurring at the distribution level—and changes were effected in the way the Company does business with its dealers, so as to eliminate any unsavory practices. A variety of initiatives were also carried out to strengthen the competitiveness of Cosmo Oil's dealers. For example, the reorganization of subsidiary dealers and their service stations was promoted to forge a more efficient network; developments were aggressively pursued in opening self-service gasoline stations and B-cle car care convenience stores, a new business format; the number of outlets accepting debit cards was expanded; and the Company's program to support service station management was continued.

With respect to the procurement of crude oil and petroleum products, the Company made strong efforts during the term to respond flexibly to fluctuations in the supply and demand environment, to secure stable supplies of crude oil, and to trim related procurement costs.

To enhance its production systems, the Company sought to boost the competitive strength of its refineries while pursuing their full operational safety. Measures included a quest for improved efficiency through the outsourcing of operations relating to plant safety and fire prevention, testing and inspection, and system maintenance. In addition, the Company worked aggressively during the year to help protect the global environment. Cosmo Oil's four refineries have already been certified under ISO 14001 international quality standards.

In the distribution area, the Company reduced related administrative costs by closing eight of its distribution administration offices nationwide and consolidating its order centers. Initiatives taken to reduce physical distribution costs included the closing of storage depots, the promotion of planned delivery schedules, and the pursuit of enhanced operating ratios for its tanker trucks and inland ships.

In matters affecting personnel operations, the Company further streamlined its staff through the implementation of a support program for employees who choose early career changes. We also launched a new personnel system designed to invigorate staff through the setting of clear targets and the application of clear evaluation guidelines.

In conjunction with its financial needs, the Company floated ¥55 billion worth of unsecured straight corporate bonds during fiscal 2000. This move was taken to secure funds, at low cost, to cover

The Company also responded from a variety of angles to revisions in accounting standards. To conform with consolidated accounting methods, we have proceeded to establish clear business domains and consolidate functions as a means of attaining greater efficiency in affiliated operations. In line with accounting demands concerning retirement allowances, we have set a target interest rate of 3%, reflecting market conditions. Currently, however, the Company suffers from a shortfall of roughly ¥25 billion in this reserve, which we plan to write off over a five-year period without placing any burden on regular operations.

Moving forward, we also will focus on making greater disclosures of Company information as a way to enable the market to evaluate us fairly. At the same time, we will also strive to improve our earnings position and enhance our corporate value even further.

BUSINESS TIE-UP WITH NIPPON MITSUBISHI OIL

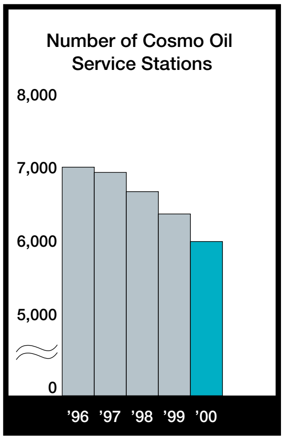
The operating environment surrounding the Japanese oil industry, which lacks upstream operations, is deteriorating more rapidly and over a longer duration than anyone anticipated. This severity stems from declining demand and the protracted economic recession, coupled with squeezed margins in refining operations that have resulted from soaring crude prices and delayed price adjustments to cope with that trend. We also face another grave issue—the need to continue responding ever more effectively to environmental requirements, for example, with the improved desulfurization of light oil.

To cope with these pressures, since fiscal 1997 Cosmo Oil has carried out rationalization initiatives that have reduced annual costs ¥120 billion. However, recognizing that addressing these issues as a lone organization is not enough, in October 1999 the Company concluded a comprehensive business tie-up with Nippon Mitsubishi Oil covering all supply aspects except marketing.

impending redemptions of the Company's convertible bonds.

To prepare for potential difficulties arising from the Y2K problem, the Company responded—according to a meticulously devised schedule—with all necessary measures, including the formulation of a crisis management plan. Thanks to these efforts, no malfunctions of any kind occurred to impede administrative procedures, including at the time of the leap day and at the end of the fiscal year.

As a result of the various management initiatives just described, Cosmo Oil succeeded in boosting its fiscal 2000 total fuel sales volume 0.9% from the level of the previous year, to 44,219 thousand kiloliters. A decline in sales of light oil was offset by increases in sales of gasoline and kerosene. Total fuel sales, lifted by the increased sales volume as well as the impact of higher crude oil prices, expanded 6.5%, to ¥1,410.8 billion. Recurring and net income respectively totaled ¥5.8 billion and ¥4.8 billion. In the end, the Company's efforts to enhance management efficiency and boost earnings, augmented by product price adjustments, were unable to compensate fully for the year's substantial increase in crude oil costs.



At the interim, the Company disbursed cash dividends at a rate of ¥3.00 per share. This same rate has been applied to the term-end dividend payment as well, resulting in cash dividends for fiscal 2000 totaling ¥6.00 per share.

Management Tasks and Strategies

—Management Initiatives in Fiscal 2001

Promotion of Added-Value Creative Management to Survive the Severe Market Environment

Never before has the oil industry faced an environment as severe as today—the result of the ongoing intensification of competition and slumping market prices in the wake of the liberalization of the petroleum product market, a situation that has been further compounded since 1999 by soaring prices of crude oil. To survive this competition, Cosmo Oil has forged dynamic management policies for implementation in fiscal 2001. The following is an outline of the Company's vision of added-value creative management for fiscal 2001, calling for the expanded creation of new added value while carrying out the rigorous rationalization initiatives already in place.

The tie-up agreement encompasses all aspects of the supply chain, from the purchasing of crude oil and tanker transport to refining and distribution as well as lubricant operations. In the initial stages, Cosmo Oil and Nippon Mitsubishi Oil expect the new business arrangement will bring collective benefits worth ¥15 billion per year.

Enhanced Efficiency in Tanker Chartering and Operation

Crude Oil Operations

The tie-up with Nippon Mitsubishi Oil enables enhanced efficiency in the chartering and operation of tankers transporting crude oil. With oil loading operations, the ideal method from the transporter's viewpoint is to take on a full load at one port on each trip. However, because the oil-producing nations require contracted purchases of given quantities of oil on a continuing basis, it is sometimes necessary for the ship operator to take on partial loads—for example, half a load in one country and the remaining half in a different country. The conclusion of a tie-up covering loading and purchasing, however, makes it possible for a single tanker to take on a full load at one port instead of two. This arrangement enables reductions in both tanker shipping costs and port and harbor costs. In addition, because it is necessary to maintain a certain degree of latitude in tanker availability at all times to cope with any sudden surges in demand, cooperation between two companies results in a cutback in the number of chartered ships required.

The restructuring of oceangoing tanker operations that these various steps enable, for example, in terms of allocations of regular and spot charter ships is initially expected to reap ¥1 billion in cost benefits.

Complementary Use of Refineries

Refining Operations

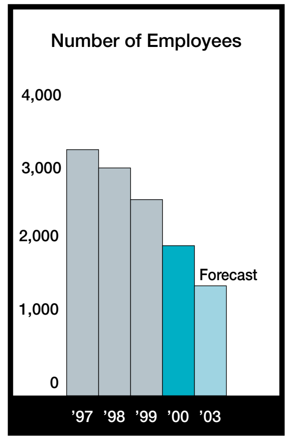
The tie-up arrangement creates a production system embracing a total of 13 refineries: four operated by Cosmo Oil, and nine belonging to the Nippon Mitsubishi Oil Group. Since all refineries have their

Further Rationalization Initiatives and Measures to Enhance Added Value

Since fiscal 1997, Cosmo Oil has achieved significant rationalization, worth a total of roughly ¥120 billion. Going forward, the Company will steadfastly carry on that mission in an effort to achieve another roughly ¥50 billion in rationalization benefits by fiscal 2004, the final year of the Company's program of Major Fundamental Reforms created to enable Cosmo Oil to survive industry competition.

In fiscal 2000, one of the Company's main tasks will be to work aggressively to enhance its added value while continuing its rationalization initiatives. The key to the creation of added value lies in the fortification of brand appeal. By raising the Company's attractiveness as a primary oil distributor in the eyes of both users and dealers, Cosmo Oil aims to create new value.

In the marketing sphere, the creation of new value will be pursued through implementing measures



designed to make users even greater admirers of the Cosmo Oil Group, including dealers. At the vanguard of these measures will be the expansion of the Company's network of B-cle car care convenience stores, which have already been well received by the public. Currently, B-cle outlets are concentrated in the Tokyo, Nagoya, and Osaka metropolitan areas, but in the future the Company will expand the network nationwide, with an initial target of B-cle shops attached to 300 service stations.

Enhancement of the Company's name appeal will also be pursued through stepped-up efforts to improve services offered to holders of the Company's membership card, Cosmo The Card, and thereby expand the card's user base.

As a way of enhancing cost-competitiveness and added value through service operations, a more demanding NAVI 6 target will be set for service stations in conjunction with the ongoing NAVIgation (NAVI) program. The program uses its own numerical index to objectively measure degrees of competitive strength.

To maximize added value on the supply side, enhanced production efficiency will be pursued through the application of the Company's new Supply Chain Management System, launched in October 1999. This is a comprehensive system for realizing optimally precise production through the real-time application of detailed data on market movements, crude oil prices, and production facility status. The Company is also making

specific advantages and shortcomings, coordinating all of these facilities into one refining network permits enhanced efficiency through complementary reliance on both partners' facilities. For example, until now, if a given refinery lacked the capacity to produce a particular semifinished product, that item had to be transported to that refinery from another, more distant company refinery; however, following the tie-up agreement, in such cases the needed semifinished product can be brought to where it is needed from a nearby refinery operated by the tie-up partner. Moreover, the frequency of such product transfers can be reduced through coordinated reviews by both companies of their production mixes and through the cooperative allocation of production so as to make optimal use of the special features of each refinery. Presently, Cosmo Oil's secondary facilities at the Chiba and Sakaide refineries retain a modest degree of untapped capacity, and, by sharing production burdens with Nippon Mitsubishi Oil, the Company can look forward to achieving full operating mode at these facilities as demand rises.

The tie-up also opens the door for Cosmo Oil to boost production of BTX, a material used in petrochemical products, destined for shipment to Nippon Mitsubishi Oil. Also, joint bulk purchasing of catalysts will enable cost savings. Collectively, these various measures related to refining operations are expected to yield initial benefits of almost ¥3 billion.

Comprehensive Product Sharing

Distribution Operations

The greatest benefits of the tie-up are to be reaped in distribution. The 13 refineries within the two companies' combined network cover virtually all markets nationwide. By fully utilizing this network, it becomes possible for the two partners to engage in comprehensive product sharing in lieu of the individual barter contracts that have been the norm until now. The arrangement not only realizes reductions in costs to transship products from refineries to storage facilities but also enables the consolidation of transshipment depots as a result of expanded tanker shipments directly from refineries. Additional preparations to shift the periodical maintenance schedules of its four refineries, from the current shutdown once every two years to just once every four years, as a way of trimming maintenance costs. At the same time, to secure even greater safety, the Company is forging meticulous safety systems applicable during regular facility operations and restructuring its risk-management systems.

New Value Creation Sought in All Segments

To create new value through distribution operations, Cosmo Oil is pursuing even greater efficiency in tandem with Nippon Mitsubishi Oil as an outgrowth of the new comprehensive tie-up arrangement. At the same time, the Company is working independently to achieve enhanced efficiency in operations relating to tanker truck deliveries and order-receipt operations.

New value creation in financial operations is presently being pursued through streamlining the Company's balance sheets as a way of improving its financial structure. Meanwhile, the Company is also realizing significant reductions in its interest-bearing liabilities through the securitization and liquidation of service station assets and sales credit.

To reap new value from system operations, the Company is progressively introducing SAP, a comprehensive enterprise resource planning package, to trim system costs and achieve improved administrative efficiency.

Targeting new value in personnel operations, Cosmo Oil has introduced a new system under which clearer—i.e. more quantitative—targets will be set and employees will be evaluated and treated fairly based on clear evaluation guidelines. The launch of the new system aims to achieve an optimum focus on results when evaluating personnel. At the same time, the total number of employees will be streamlined to 1,500 (versus 2,073 at the end of January 2000), and organizational consolidation and leveling will be carried out. The Company, recognizing the urgency of these tasks, is presently working to achieve optimum efficiency in the performance of the requisite administrative processes.

Finally, to boost corporate value on a Companywide basis, Cosmo Oil is taking aggressive actions to enhance its activities relating to disclosures to investors.

Full-Scale Startup of On-line Business

Another major theme guiding Cosmo Oil's tasks for fiscal 2001 is engaging in new areas of business outside the Company's traditional framework.

One area into which the Company is concentrating most heavily is Internet-based business, particularly e-commerce. In December 1999, the Company launched an Internet project targeted at unifying on-line business initiatives within the Cosmo Oil Group as a way of realizing comprehensive strength.

cost reductions can be achieved through the cooperative operation of inland tankers, just as in the case of oceangoing tankers. At this juncture, Cosmo Oil estimates the tie-up with Nippon Mitsubishi Oil will result in roughly ¥10 billion in benefits in the distribution sphere, and even greater efficiency merits can be expected in the future.

Joint Production of Base Oils

Lubricant Operations

The tie-up with Nippon Mitsubishi Oil also extends to lubricant operations. Through the joint production and supply of base oils, the core ingredients of lubricants, an enhanced production system of improved production efficiency will be achieved. When cost reductions from cooperative purchasing of additives and containers are factored in, the tie-up is projected to bring initial benefits in this segment reaching ¥1 billion. Cosmo Oil also sees possibilities for future collaboration with Nippon Mitsubishi Oil in research and development.

Following the reading of the agreement for the tie-up, a committee was formed, co-chaired by the presidents of both companies, to carry out the agreement. To start, detailed proposals relating to all areas covered under the tie-up were taken under consideration. These deliberations led to the conclusion that, while the benefits to be generated in each segment may ultimately vary from their respective targets to some degree, the overall goal of the tie-up—to generate an initial ¥15 billion in benefits yearly—should be attainable.

To achieve optimum speed in achieving these aims, the two partners elected to begin working first on matters most readily achievable, while seeking to bring all areas covered by the tie-up to fruition as early as feasible.

We firmly believe that the expansive, comprehensive tie-up with Nippon Mitsubishi Oil paves the way for Cosmo Oil to enhance its competitive strength in the market and solidify its position as a core enterprise in the Japanese oil industry.

Under the project, six themes have been set, and for each theme a special organization has been established to unify efforts toward that task's achievement while strengthening tie-ups with affiliated and cooperating firms. In April 2001, an on-line operations unit was created as the first organization of this kind in Japan applying an in-house recruiting system.

In developments relating to on-line business targeted at users and consumers, Cosmo Oil has entered a tie-up arrangement with autobytel.Japan, an on-line automotive marketing brokerage service. In April 2000, a new service was inaugurated whereby customers can order automotive parts and accessories through a new Internet Web site and pick up their merchandise at Cosmo Oil service stations. Initially, roughly 300 service stations will serve as bases for this system, and plans call for steady network expansion. Also, the Company will work to build a full-fledged on-line business configuration that will eventually embrace the sale of vehicles. In addition, the Company will continue to make expanding use of the Internet to strengthen the communication ties between Cosmo Oil and its member cardholders. Messages to cardholders, currently distributed by regular mail, will be shifted to e-mail to achieve enhanced rationalization and to provide important information to cardholders with optimum speed.

Cosmo Oil's card membership system, which currently encompasses approximately 2 million members, has the capacity to provide various services that are impossible with other card programs by virtue of the fact that Cosmo The Card transactions are settled using an in-house system. In the future, the Company will also proactively use its Web site (URL: http://www.cosmo-oil.co.jp) to expand its network of cardholders and to improve its information disclosures (such as real-time management data), both quantitatively and qualitatively, to users and investors.

Cosmo Oil will also work to strengthen the competitiveness of its Groupwide distribution structure by upgrading the Internet environment linking the Company and its dealers and their service stations, thereby creating an interactive communications infrastructure that will also allow the Company to provide diversified information services. On-line operations will also enable the realization of enhanced administrative efficiency and speed through the electronic transmission of documents and the on-line purchasing of materials and equipment from suppliers.

Creating New Value in Fiscal 2001

In fiscal 2001, Cosmo Oil will focus on a new business endeavor of great importance: the development of operations involving the sale of electricity as an independent power producer, for example at the Yokkaichi Refinery. The Company will also engage vigorously in the development of oil-based fuel cells, the marketing of cogeneration systems, and the evaluation of potential new fuels.

In a nutshell, the direction in which Cosmo Oil's management initiatives are being directed in fiscal 2001 is toward added-value creative management. While carrying out the Company's earlier initiatives in rationalization, developments will be actively pursued toward the creation of new value in both existing and new areas of business to ensure Cosmo Oil's solid position in an increasingly competitive market.

The Company will also maintain its focused determination to become a company worthy of attracting investors globally. Toward that end, the Company will further enhance its investor relations activities and information disclosures as a way of increasing the transparency of its management.

Finally, as a company playing a major role in the nation's energy supply structure, Cosmo Oil will continue to maintain ethically responsible management as it works to secure a stable supply of crude oil along with the provision of high-quality products. At the same time, the Company will continue to engage aggressively in activities to safeguard the global environment and to make broad social contributions, undertaking developments which will comprehensively enable a harmonious balance with the needs of society.

September 1, 2000

Keiichiro Okabe,
Chairman and
Chief Executive Officer

BOARD OF DIRECTORS AND AUDITORS

Front row, from left: Chairman and Chief Executive Officer
Keiichiro Okabe
Vice Chairman
Kazuhiko Mitsumoto

Back row:
Senior Managing Director
Yaichi Kimura

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Keiichiro Okabe*

VICE CHAIRMAN
Kazuhiko Mitsumoto*

SENIOR MANAGING DIRECTOR
Yaichi Kimura*

MANAGING DIRECTORS
Masaaki Takeda
Masaru Mori
Masaaki Takeuchi
Takefumi Uchida
Yasuyo Kobuchi

DIRECTORS
Norio Kato
Kiyoto Kudama
Yoshiyuki Yuasa
Makoto Kobayashi
Kazuhisa Tamura
Keizou Morikawa

STANDING AUDITORS
Keizo Nishimura
Yoshitomi Ebisuya**
Takeo Yamamoto
Susumu Eda

AUDITOR
Hajime Miyamoto**

*Representative Director
**Independent Auditor

(As of June 29, 2000)

MARKETING

One of the principal goals on which Cosmo Oil has focused in recent years is the fortification of its marketing structure. A strong marketing structure is viewed as the linchpin of the Company's slate of initiatives targeted at achieving an unassailable position of competitive superiority.

In April 2000, the Company also introduced SAP, an enterprise resource planning package comprehensive accounting system and reviewed the terms of its contracts with dealers; these changes will make positive contributions to the attainment of appropriate sales and profit levels.

Fiscal 2000 was also a year of unprecedented initiatives and achievements in innovative marketing. The Company used the NAVI 99 program, begun in April 1999, to promote marketing at service stations and improve NAVI indexes, which are numerical measures of a service station's earning power and added value, to 10. The Company has subsequently set its service stations the even more stringent goal of improving NAVI indexes to 6, so as to bring their operations solidly into the black. During fiscal 2000, efforts in this direction were clearly rewarded, as the NAVI index of service stations improved an average of 1.6 points from the previous year. In addition, the target line of the Corporate NAVI index, an objective barometer of the earning power of dealers, was similarly lowered, to 1.5, and related efforts resulted in improvement in this segment as well.

In fiscal 2001, the Company will strive for even greater management efficiency by lowering the targets for the NAVI index and Corporate NAVI index to 6 and 1, respectively. Service stations that are hard-pressed to enhance their NAVI index attainments will be either closed or converted to alternate fields of business. For this reason, during fiscal 2000 Cosmo Oil trimmed its network by 376 service stations, to 6,105. This policy of eliminating or merging outlets, so that only those that generate high profits remain, will be maintained through fiscal 2001.

Under NAVI 2000, commencing in fiscal 2001 the Company will even further enhance its support program for both dealers and their service stations. Management guidance and seminars will be offered to enable these outlets to create high demand for Cosmo The Card credit cards and to conduct value-added-based marketing for individual products. Training courses will be offered to staff at service stations to prepare them for national certification testing as qualified mechanics. The initiative that will aid service stations most in their quest for substantially improved NAVI index achievements, however, is the incorporation of B-cle car care convenience stores directly into their service station facilities.

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

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.

B-cle stores are convenience store style outlets designed to aid vehicle owners by offering services related to tire and mechanical maintenance and repair as well as exterior maintenance. A new system of B-cle networks, inaugurated in fiscal 2000, link B-cle shops within a given area to key B-cle outlets that have obtained government certification as automotive repair shops. Already, the integration of B-cle shops has proven effective in expanding gross profits from products other than automotive fuels and in significantly increasing the earning power of service stations. As a result, the Company has set a target of opening an initial total of 300 B-cle outlets nationwide. Cosmo Oil's ultimate objective is to transform its service stations to "total car care" centers with a competitive edge over both car accessory shops and car dealerships.

The Company is also making strides in consolidating. In fiscal 2000, the dealer network was trimmed by 21 companies, to 455. The consolidation effort will take a significant step forward from July 1, 2000, with the merger of 12 leading subsidiary dealers. Initial efforts will focus on strengthening the structures of dealers in which the Company has an equity stake so that they can serve as important marketing channels. Plans also call for consolidation and reorganization, when deemed necessary, to concentrate managerial resources and boost cost-competitiveness and marketing strength.

At the end of fiscal 2000, six Cosmo self-service gas stations were in operation. The creation of those stations was made possible by deregulatory measures, and Cosmo Oil is planning to open additional self-service stations to satisfy users' increasingly diverse needs.

Cosmo Oil, taking note of the progressive trend toward cashless transaction settlements, is advancing its own unique card strategy, involving unique features, as a way of distinguishing itself from its competitors. Cosmo The Card, a credit card now held by almost two million members, is the only card of its kind in the industry, in that it is managed and operated independently. The card's convenience to users, coupled with a system enabling on-the-spot issuance at Cosmo outlets, has resulted in a steady increase in the number of cardholders since the facility was introduced.

The Company is also unique in the oil industry in several other respects. It is effectively the only oil company to participate in a variety of new business schemes, such as J-Debit, a new debit-card program begun in January 1999, and the electronic money system begun by the Ministry of Posts and Telecommunications on a trial basis in Omiya, Saitama Prefecture, in 1998. In these ways, Cosmo Oil is taking the lead within its industry in responding to the transition to a truly cashless society.

In fiscal 2001, the Company's focus will be on the creation of new value. One area of operations that will enable this achievement is the Company's active entry into the realm of e-commerce. Plans call for the full-scale start of operations in this sphere during the fiscal term.

TheCard.com is to be an Internet-based information service for holders of the Company's Cosmo The Card. This service, which will take advantage of the Company's expanding user base, will promote more active communication between Cosmo Oil and its customers.

B-cle.com is a service that will enable users to purchase parts and other automotive products over the Internet. In several ways, it will be an altogether new form of marketing automotive items. First, payment settlements will be processed using the independently owned system already in place for Cosmo The Card. Second, merchandise will be available for pickup at Cosmo service stations. In addition, starting in fiscal 2001, Cosmo Oil will enter a tie-up with Virtual Auto World, one of Japan's most comprehensive auto parts Web sites.

In preparation for the foregoing Internet initiatives, the Company has concluded a business tie-up with autobytel.Japan, the Japanese subsidiary of autobytel.com inc., which operates an American Web site that markets automobiles. Simultaneously, the Company has also begun marketing a set plan combining personal computer and Internet connection services.

Looking to the future, the Company envisions the further development of these new Internet-based services with the operation of an automotive portal site available not only to Cosmo Oil cardholders but also to the public at large. Also, the Company will proactively use the Internet to enhance its relationship with its operators, for example, through the promotion of electronic purchasing and more through active two-way communication with its dealers and their service stations.

By pursuing the creation of new value, particularly in its oil and automotive business areas, Cosmo Oil looks forward to achieving new earnings sources in the coming years.

Refining

REFINING

Cosmo Oil surpasses other oil companies with respect to the capacity and efficiency of its refining operations and its supply and demand management. These achievements derive from two principal sources: the Company's thorough integration of production and marketing operations, and its ideally located refineries.

The performance of both production and marketing activities by a single firm is a phenomenon unique to Cosmo Oil among independent Japanese oil companies. The full integration of production and marketing enables the Company to supply its products not only efficiently and with optimal timing but also in line with its own marketing strategies.

Cosmo Oil's four refineries are located in close proximity to each of Japan's four principal petroleum-product consuming regions: Kanto, centered on Tokyo; Tokai, centered on Nagoya; Hanshin, stretching from Osaka to Kobe; and the Seto Inland Sea region. These refineries, which supplied industrial fuels to the nation's four largest industrial zones during the era of high-paced economic growth, are each equipped with port facilities to accommodate unloading of very large crude oil carriers (VLCCs) in the 260,000-ton class and with secondary facilities necessary for the production of high-value-added products. Although today these refineries' roles have shifted largely to the production of fuels for everyday use in the four urban zones where population is most heavily concentrated, their importance to the nation continues to expand.

One policy being accorded high priority today is a transition to lighter petroleum products. In place of the previous emphasis on industrial fuels, the Company's four refineries today are shifting their focus more toward production of such high-value-added products as gasoline, light oil, kerosene, jet fuel, and heavy oil. The secondary facilities required for this production are equipped with heavy-oil direct-desulfurization (HODD) units offering processing capacities significantly higher than the national average.

HODD units provide excellent value due to their versatility. In addition to removing sulfur from heavy oil as their name suggests, HODD units, when used in combination with fluid catalytic cracking (FCC) units, can produce light oil, gasoline, and other light, high-value-added products from the heavy components of crude oil. Also, the various measures taken to promote the refineries' shift to light products—for example, the development of highly resistant catalysts—have enabled the Company to achieve nearly a 48% yield on its four principal middle distillates, significantly above the industry average of just less than 45%, thereby contributing to overall earnings.

Another core policy targets substantial reductions in production costs. Cosmo Oil's production costs are already among the lowest in the industry, thanks to the relatively modest burden of depreciation for the Company's refinery facilities—but aggressive steps are being taken to significantly enhance efficiency levels even further. In conjunction with this initiative, the entire Company is involved in a project that seeks to trim refining costs ¥700 per kiloliter by 2003. In light of the high added value which Cosmo Oil's products enjoy, bringing refining costs down by that amount should place Cosmo Oil in direct competition against oil refineries in Singapore and South Korea.

The Company is also restructuring its plant maintenance programs. In the wake of deregulation, which

now permits the continuous operation of refineries for up to four years, Cosmo Oil aims to trim its maintenance costs while fully ensuring optimal operational safety.

In addition, cost reduction measures are being pursued from a variety of approaches. For example, the Company no longer holds rigidly to its customary outsourcing practices but rather has adopted a new stance whereby outsourcing agents are to be consolidated as a means of optimizing the Company's profitability. Measures are also being taken to cut personnel costs and maintenance construction outlays, and a unified purchasing system is being pursued for externally procured materials.

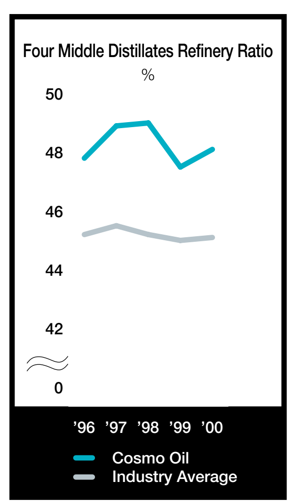
Significant contributions both to lower production costs and reduced energy usage are resulting today from the introduction of cogeneration systems at all Company refineries. These systems simultaneously supply heat and electric power from petroleum-based fuels, and they not only help save energy but also provide the added benefit of being able to market any surplus power that is generated but not required within the refineries themselves.

The Company is also preparing to engage in power-marketing operations on an even greater scale, with the inauguration of operations as an independent power producer at a site adjacent to the Yokkaichi Refinery. Plans call for Cosmo Oil to supply, on a wholesale basis, up to 200,000 kilowatts of power to Chubu Electric Power Company, Incorporated, over a 15-year period beginning in 2003. As these operations will make effective use of asphalt as a fuel source, they are expected to add flexibility to the Company's supply and demand structure and thereby contribute significantly to profits.

Further enhancements in refining efficiency are also anticipated as a result of the Company's comprehensive tie-up with the Nippon Mitsubishi Oil Group. Initially, Cosmo Oil and its new partner will look for the tie-up arrangement to yield almost ¥3 billion in collective benefits. Enhanced efficiency will come from such areas as the joint purchasing of catalysts and the mutual provision of BTX, a base material used in petrochemical products, alkylate, and other basic components of gasoline.

Secondary Refining Facilities (As of April 1, 1999)

	Cosmo Oil	Industry Average
Atmospheric distillation (Thousand BPD)	645	5,354
FCC (%)	15.7	17.1
HODD (%)	15.8	11.3
FCC + HODD (%)	31.5	28.4



DISTRIBUTION

Cosmo Oil has long been ahead of its competition with respect to the geographical positioning of its refineries. These are located in a favorably balanced network with key points in four regions: the Tokyo metropolitan area, the Chukyo region surrounding Nagoya, the Kansai region centered on Osaka, and the Seto Inland Sea area. In enhancing its distribution efficiency, the Company has focused on the optimum use of these refinery locations to boost the number of overland tanker truck shipments from its refineries directly to its service stations, so as to permit consolidation of the Company's transshipment depots.

Increasing the number of direct tanker truck shipments from the refinery to the service station is the most effective means of reducing distribution costs. To that end, Cosmo Oil is actively promoting the cooperative use of production facilities with other companies. By gradually expanding these barter-based arrangements, the Company has successfully raised its ratio of direct shipments from refinery to service station from approximately 30% in fiscal 1998 to more than 50% in fiscal 2000.

Consolidation has also been carried out in the Company's order-processing operations. In June 1999, the Company reduced its nationwide network of order centers from eight to just two: the Fuel Order Center, located within the Chiba Refinery, and the Lubricant Order Center, at the Sakai Refinery. In tandem with this consolidation, the number of employees engaged in order processing was trimmed 40%, to 74. Currently, orders are received through an independent on-line network known as CORASII, but preparations are now moving forward toward the development of an easier-to-use ordering system accessible over the Internet.

Cosmo Oil is also making dynamic strides in upgrading its delivery system. In place of the old system, under which deliveries were processed based on individual orders from Cosmo service stations, the new system allows the Company to devise its own delivery schedules, which are centrally controlled and based on the point-of-sale data that it receives. In fiscal 2000, the number of service stations in this system was expanded to 810, up from 580 at the end of fiscal 1999, and current initiatives are expected to bring some 1,900 service stations into the system, further raising the number of planned deliveries.

The Company is also taking steps to increase its use of tanker trucks and shift to using tanker trucks of larger capacity. At the end of fiscal 2000, the average load capacity of its tanker trucks stood at 19 kiloliters. A remarkable 61% of its fleet features capacities of 20 kiloliters or higher. These figures firmly place Cosmo Oil in the top ranks of the domestic oil industry in this respect. The Company is also making progress in expanding the size of its tanker ships used in domestic waters.

Cosmo Oil is also scoring successes in extending the operating time of its tanker trucks. In fiscal 1999, nighttime and holiday deliveries were newly instituted, and in fiscal 2000 these operations were further expanded.

Even greater efficiency will be promoted in fiscal 2001 and beyond as an outgrowth of the comprehensive business tie-up concluded with Nippon Mitsubishi Oil. In addition to the further consolidation of transshipment depots due to stepped-up direct shipment, made possible by the cooperative use of both companies' refineries, the Company will pursue improved efficiency in both land and marine transport through the joint use of tanker trucks and inland tankers. Collectively, Cosmo Oil and Nippon Mitsubishi Oil expect to reap approximately ¥10 billion in cost advantages relating to domestic product distribution as a result of their tie-up.

Sourcing

SOURCING

Cosmo Oil has been actively developing crude oil resources since the late 1960s to secure its own earnings base as a hedge against price fluctuations and contribute to the realization of a stable energy supply for Japan. During fiscal 2000, of the total volume of crude oil imported by the Company, approximately 16% was derived from its own supply sources. Moreover, roughly 8% was drawn from the Company's independently developed and operating oil fields, a notably high ratio compared with other major Japanese petroleum-product distributors.

For more than 30 years, the Company has been especially active in oil exploration, development, and production in the emirate of Abu Dhabi in the United Arab Emirates (UAE). Here, Cosmo Oil works through one subsidiary—Abu Dhabi Oil Co., Ltd. (Japan) (ADOC), in which the Company has a 51.1% share—and two affiliates—Mubarraz Oil Co., Ltd. (MOCO), and United Petroleum Development Co., Ltd. (UPD), in which it has 20.3% and 13.3% equity stakes, respectively. The Company has enjoyed close ties of trust with the Abu Dhabi government for many years, and in this respect Cosmo Oil has played an important role in laying the foundation for solid relations between the Japanese government and Abu Dhabi.

Currently, ADOC's Mubarraz oil field and MOCO's AR and GA oil fields collectively produce more than 30 thousand barrels of crude oil per day. Production volumes were successfully increased at all three fields during fiscal 2000. Output was expanded through the active application of efficient new production methods and technologies, such as horizontal and infilling wells and gas injection. UPD generates a stable supply of 23 thousand barrels per day through the application of the water flooding method.

In a joint venture with Nissho Iwai Corporation and UPD, backed by financial support from the Japan Petroleum Development Corporation, Cosmo Oil established Qatar Petroleum Development Co., Ltd. (QPD), in which it has a 38.44% equity stake. Appraisal wells drilled in the Al Karkara Structure and the ISE block of A-Structure North between June and September of 1998 confirmed the existence of API39° crude oil at both sites. To assess output behavior at the Al Karkara Structure, extended well testing (EWT) was carried out for six months starting in October 1998. The EWT yielded a total output of 820 thousand barrels, all of which has been transported to Cosmo Oil's refineries for processing. Presently, feasibility studies are under way to determine whether the field should be fully developed. It is expected that full-scale commercial operations will commence in 2002.

The exploratory activities being carried out by QPD, coupled with the production activities already in progress at UPD, have led to the formation of excellent ties between Cosmo Oil and the Qatar government. The Company now hopes to take advantage of the experience garnered through its involvement in QPD and probe possibilities for acquiring rights to other exploratory zones in the region.

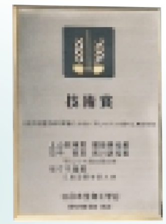
Cosmo Oil, working with Cultus Timor Sea Ltd., which serves as operator, and other partners, has obtained the exploration permit for the AC/P17 block in the Timor Sea, off the northwest shore of Australia. Today, exploratory drilling is being conducted by Cosmo Oil Ashmore Ltd., a subsidiary established specifically to promote this project that presently possesses a 50% share of the exploration permit for this block. In 1997, high-grade API48° crude oil was successfully discovered at the No. 2 well drilled at the Tenacious Structure, and a Declaration of Location was made in December 1998. Currently, the feasibility of proceeding to full-fledged development is under consideration, and plans call for the drilling of other exploratory wells in the area to seek out additional oil reserves.

In March 1998, Cosmo Oil set up another exploratory subsidiary, Cosmo Oil Cartier Ltd., to pursue a similar project in the nearby AC/P18 block of the Timor Sea. Presently, geological and geophysical evaluations are under way.

Looking forward, Cosmo Oil, while maintaining a clear focus on economic feasibility, intends to continue its aggressive oil development initiatives in these and other regions, taking advantage of potential opportunities in exploration, development, and production at promising new oil and gas fields.

R&D

R & D



Over the years, Cosmo Oil has achieved a noteworthy record of success in research and development, as demonstrated by the numerous awards and prizes it has received from both industrial and academic circles. The hub of the Company's R&D activities is the Cosmo Research Institute, a fully owned entity within the Cosmo Oil Group. The focus of the institute's research is on attaining enhanced efficiency in oil refining processes, developing new catalysts, and improving the quality of gasoline products through such methods as benzene removal.

One of the institute's major achievements in fiscal 2000 was the development of an industrially viable production method for 5-amino levulinic acid (ALA), a biogenic activator relying on fermentation technology. ALA is garnering attention today as a photosensitizer used in photodynamic therapy for cancer as well as a growth regulator and salt-resistance enhancer for plants. Until now, the high-volume production of ALA by chemical synthesis had posed a challenge to researchers, and a viable production method had proved elusive. But with the method developed by the Cosmo Research Institute, the door has now opened toward practical use of ALA in medical, agricultural, and many other fields. The institute's research has also won the accolades of the academic world, and in September 1999 the institute was bestowed with the 8th Technical Prize from the Society for Bioscience and Bioengineering. By way of optimizing the results of this research, a project team has been formed to probe the feasibility of taking this breakthrough to a fully operational level.

A vigorous R&D program is also being carried out in the area of new energy sources. In fiscal 2001, the full-scale development of fuel cell systems utilizing petroleum-based fuels will commence, applying technologies that are attracting much attention as a means toward the creation of highly efficient energy sources for the next generation. These systems are designed to generate electricity by setting up chemical reactions between ambient oxygen and hydrogen obtained through use of improved fuels. Fuel cells operating on petroleum-based energy sources are expected to attract a high level of demand in the future, in light of their outstanding economy and their usefulness as self-contained generating systems in times of emergency. Such applications as gasoline fuel cells in automobiles are also extremely promising.

Cosmo Oil is also scoring significant successes in research into information technology (IT) and functional materials, two areas that are now very much in the limelight. One example is Möbius, a low-dielectric polymer developed as an ideal electronic material for use in next-generation high-frequency antenna components and circuit substrates. The new polymer is expected to meet robust demand in coming years, in tandem with ongoing developments in IT.

The Company has also successfully developed an efficient method for synthesizing thiacalixarene-6, an organic compound with a ring-shaped molecular structure. Thiacalixarene-4, a related compound whose synthesis technology was achieved somewhat earlier, is expected to be adopted in applications, including functional materials and additives.

Cosmo Oil Lubricants Co., Ltd., another fully owned subsidiary, conducts ongoing research into the development of high-performance oils to enable the continuing enhancement of the LIO line of automotive lubricants, which constitute a core segment of the Company's operations. To evaluate the performance of these new oils, Cosmo Oil actively participates in auto racing events.

Environmental Protection

The Company has been engaged in environmental protection in a fully organized and proactive manner since its establishment of an internal Global Environment Committee in 1993.

Since autumn 1999, Cosmo Oil has been shipping gasoline with a benzene content of less than 1%. This move, taken in line with the Company's commitment to produce environment-friendly petroleum products, was made in advance of revised regulations regarding benzene, effective January 2000, mandating less benzene in gasoline products. The Company achieved its target by installing benzene removal equipment at all refineries.

Cosmo Oil is promoting vigorous environmental management initiatives against SO_X, NO_X, and other toxic pollutants as well as maintaining healthy Chemical Oxygen Demand (COD) levels in all production phases at its four refineries. These efforts have already enabled the Company's refineries to surpass regional regulatory emission standards by a wide margin. In addition, the Company has been advancing a program targeted at reducing industrial waste. The program, calling for the achievement of the three Rs—reduce, reuse, and recycle—sought to slash the Company's waste output 40% between 1990 and 2010; this objective was accomplished well ahead of schedule, in fiscal 1999.

The environmental management systems in place at the Company's four refineries have been fully certified under both ISO 9002 and ISO 14001 international quality control standards. Today, driven by its unrivaled commitment to supply petroleum products that are environmentally friendly and of a high quality on a stable and economical basis, Cosmo Oil is promoting production activities targeted at achieving a harmonious balance between production and environmental demands.

Cosmo Oil is also actively involved in energy conservation initiatives. The Company is working to increase efficiency of equipment in all refineries, with an objective set at reducing its adjusted energy consumption per output unit 10% between fiscal 1991 and 2010. Efforts are also being made to reduce fuel usage volumes for both land and maritime transport 9% within that same time frame.

Moreover, the Company has made an all-out commitment to ensure the safe operation of its tankers, in recognition of the enormous impact that a tanker spill can have on the global environment. For optimal safety, the Company is steadily shifting its fleet to double-hulled tankers. Meanwhile, in cooperation with shipowners, measures are being taken to implement safety control in all aspects of operations, and training is being conducted regarding methods for dealing with oil spills. These programs aim to ensure an effective liaison among shipowners, shipment consignors, and ship chartering firms, as well as to offer a proper response to the public's information needs in times of emergency. Thanks to these initiatives, Cosmo Oil is confident of its ability to work effectively with its cooperating partners in the unlikely event of a disaster at sea.

Cosmo Oil views the 21st century as an opportunity for restoring the health of the natural environment. As an exemplary corporate citizen making a positive contribution to the harmonious coexistence of industry and the global environment, the Company will continue to move forward with environmental protection initiatives in all aspects of its operations.

Community Involvement

COMMUNITY INVOLVEMENT

Cosmo Oil, believing that companies should be exemplary members of society, undertakes a robust program of activities designed to make social contributions at both the administrative and grassroots levels. Three fundamental guidelines serve as the driving foundations of these activities: to perform social services unique to Cosmo Oil; to promote the active participation of the Company's employees in these activities; and to carry out these activities on a long-term, continuing basis uninfluenced by the Company's earnings fluctuations.

One of the new initiatives inaugurated during 1999 was the creation of SS Order Cards designed to offer enhanced convenience at the gasoline pump to hearing-impaired customers. The cards have been distributed nationwide to relevant organizations and have been favorably received.

In conjunction with the Company's ongoing support of the Japan Virtuoso Symphony Orchestra, in fiscal 2000 the Company again invited visually impaired musicians to perform and backed the orchestra's performances. At the orchestra's concert venues, the Company regularly collects used prepaid telephone cards and unused postcards; these items, which have redeemable value in Japan, are then donated to groups supporting the visually challenged. The Company also actively supports other concert activities that support intellectually challenged members of society.

Cosmo Oil calls for public action, through concerts and radio programs, to protect the global environment. Since 1990, the Company has been running the Cosmo Earth-Conscious Act fund-raising campaign. Money is raised both through periodic charity concerts at the Nihon Budokan in Tokyo and on a year-round basis through calls via the radio for environmental action, charity auctions over the Internet, and donations of points accrued by the Company's card-holding members. These proceeds are donated to the Japanese branch of the World Wildlife Fund.

Another ongoing campaign, conducted in conjunction with activities in support of a motorized society, is Cosmo Waku Waku Camp, a summer camp program for children who have been orphaned as a result of traffic accidents. In 1999, a total of 50 boys and girls were invited to Nagano Prefecture to enjoy the abundant natural beauties of the region. The program, by fostering an appreciation of the importance of the natural environment, helps these youngsters to grow into socially responsible adults. Company employees assist in the operation of the camp on a volunteer basis, participating together with the children in a variety of outdoor activities.

To promote an understanding of the barriers imposed by the social environment on the physically challenged, employees are also afforded opportunities to experience firsthand what life is like for people reliant on wheelchairs. Also, since 1997 the Company has held annual Christmas concerts to which it invites handicapped youths attending special schools near the Company's head office in Tokyo. In cooperation with other companies in the same vicinity as the head office, Cosmo Oil also participates in activities to beautify the neighborhood and support the handicapped. The head office, branches, and refineries also actively engage in a broad array of activities geared toward their local communities. At the branch and refinery levels, these activities include area cleanup campaigns and the hosting of sports events.

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
	1996	1997	1998	1999	**2000**	**2000**
For the year:						
Net sales	¥1,556,171	¥1,729,495	¥1,680,478	¥1,443,457	**¥1,584,678**	**$14,949,793**
Operating income	32,069	35,409	27,901	22,860	**16,665**	**157,217**
Net income	6,545	8,839	5,340	839	**4,841**	**45,670**
At year-end:						
Total shareholders' equity	185,836	189,790	190,716	186,496	**180,386**	**1,701,755**
Total assets	1,286,000	1,287,172	1,277,022	1,229,285	**1,295,693**	**12,223,519**
	Yen					U.S. dollars
Per common share:						
Net income	¥ 10.36	¥ 13.99	¥ 8.45	¥ 1.33	**¥ 7.76**	**$ 0.07**
Cash dividends	8.00	8.00	8.00	6.00	**6.00**	**0.06**
Ratios:						
Operating profit margin (%)	2.1	2.1	1.7	1.6	**1.1**	
Return on equity (%)	3.5	4.7	2.8	0.4	**2.7**	
Return on assets (%)	0.5	0.7	0.4	0.1	**0.4**	
Interest coverage ratio (times)	1.5	1.8	1.5	1.4	**1.0**	
Dividend payout ratio (%)	77.2	57.2	94.7	451.1	**77.3**	

Note: U.S. dollar figures are translated from yen, for convenience only, at the rate of ¥106 to US$1, the approximate rate of exchange at March 31, 2000.

Overview

Crude oil prices nearly doubled during fiscal 2000, ended March 31, 2000, rising from slightly more than US$14 per barrel in April 1999 to near US$24 per barrel in March 2000. There was a delay in passing this rise on to retail prices of petroleum products in Japan—while per-liter costs surged ¥10 during the fiscal year, per-liter selling prices at service stations grew only approximately ¥8 in the case of gasoline and ¥4 to ¥5 in the cases of diesel fuel and kerosene, respectively.

Amid this severe operating environment, the Cosmo Oil Group proceeded with the implementation of its New Structural Reform Plan, which was begun in fiscal 1999, and began implementing the newly formulated Major Fundamental Reforms plan. In concrete terms, the Group strove to rationalize its refining, marketing, and administration operations. It also continued a staffing structure optimization process through moves to streamline its organizational structure and through a system that supports employees' early retirements and career and company switches. Additional moves to strengthen the Group's marketing systems included those to eliminate and merge such facilities as transshipment depots and service stations.

Reflecting the effect of higher crude oil prices on Cosmo Oil's principal oil operations as well as a net increase of four in the number of the Company's consolidated subsidiaries, consolidated net sales grew 9.8%, or ¥141.2 billion, to ¥1,584.7 billion (US$14,950.0 million). Despite the negative effects of the previously mentioned widened gap between procurement and selling prices, improvement in the profitability of oil development, lubricants, and marketing, company operations combined with other factors in causing net income to skyrocket 477%, or ¥4.0 billion, to ¥4.8 billion (US$45.7 million). In light of the nature of its operating environment, the Company maintained its cash dividends applicable to the fiscal year at ¥6.00 (US$0.06) per share, the same level as in the previous year.

To cope with intensifying competition through efficiency-boosting measures beyond the framework of a single enterprise, the Company signed a basic agreement with Nippon Mitsubishi Oil Corporation on October 12, 1999, that calls for the two companies to collaborate in crude oil procurement and other fields. Based on this tie-up, the partners anticipate that they will lower their combined annual costs by roughly ¥15.0 billion within three years.

Net Sales

Consolidated net sales increased 9.8%, or ¥141.2 billion, to ¥1,584.7 billion (US$14,950.0 million). The oil business segment accounted for ¥1,523.7 billion in net sales, or 96.2% of consolidated net sales. The volume of the Company's sales of gasoline, naphtha, kerosene, diesel fuel, and other petroleum products was 31,302,000 kl, up 0.2%. However, the principal reasons for the rise in consolidated net sales were the higher profitability of oil development operations due to the increase in crude oil prices and the addition of newly consolidated subsidiaries. Net sales for the real estate segment were ¥6.4 billion, reflecting the sale of large-scale assets. In other operations, the consolidation of two subsidiaries engaged in the leasing and engineering businesses boost net sales to ¥54.6 billion.

Costs, Expenses, and Earnings

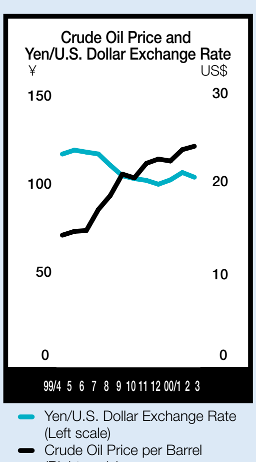
On a consolidated basis, the cost of sales increased 12.8%, or ¥162.2 billion, to ¥1,427.6 billion (US$13,468.3 million). This rise was greater than that in net sales, reflecting the previously mentioned lag between rises in crude oil procurement costs and selling prices. Thus, the ratio of cost of sales to net sales grew 2.4 percentage points, to 90.1%, and gross profit fell 11.8%, or ¥21.0 billion, to ¥157.0 billion (US$1,481.5 million).

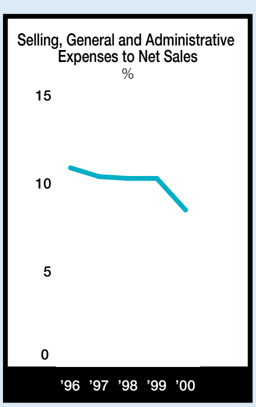
In accordance with its New Structural Reform Plan and Major Fundamental Reforms, the Company proactively cut costs. Consequently, selling, general and administrative (SG&A) expenses dropped 9.5%, or ¥14.8 billion, to ¥140.4 billion (US$1,324.3 million). This drop offset more than 70% of the fall in gross profit.

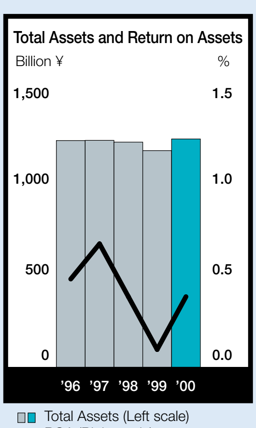
As a result, operating income totaled ¥16.7 billion (US$157.2 million), down 27.1%, or ¥6.2 billion. The ratio of operating income to net sales decreased 0.5 percentage point, to ¥1.1%. Operating income amounted to ¥10.8 billion in the oil segment, ¥4.5 billion in the real estate segment, and ¥1.0 billion in the others segments.

Other expenses plunged ¥15.2 billion, to ¥3.4 billion (US$31.6 million). This reflected moves taken in accordance with the Company's two management plans to sell tangible assets, primarily securities and underutilized real estate. Gains on the sale of tangible assets and securities amounted to ¥9.5 billion and ¥7.1 billion, respectively. In line with the Company's sustained streamlining strategy, ¥7.0 billion of special severance payments to employees who took early retirement were recorded, up ¥0.9 billion year on year.

As a result, income before income taxes and minority interests totaled ¥13.3 billion (US$125.6 million), up 206.0%, or ¥9.0 billion, and net income surged 477.0%, or ¥4.0 billion, to ¥4.8 billion (US$45.7 million). Beginning in fiscal 2000, the Company adopted tax effect accounting due to changes in regulations for consolidated financial statements. As a result, deferred tax of ¥3.7 billion was added to current income taxes payable of ¥4.4 billion. Thus, income taxes totaled ¥8.1 billion (US$76.6







million), and the effective income tax rate was 61.0%. Net income per share before dilution grew ¥6.43, to ¥7.76 (US$0.07).

Financial Position

The rises in crude oil procurement prices and petroleum product selling prices led to increases in notes and accounts receivable and inventories, with the main contribution to higher inventories being in-transit crude oil and oil products. This and the consolidation of additional subsidiaries were the principal factors causing total assets to grow 5.4%, or ¥66.4 billion, to ¥1,295.7 billion (US$12,223.5 million).

Current assets grew ¥102.2 billion, to ¥615.0 billion (US$5,801.8 million). This reflected rises of ¥13.5 billion in cash and deposits, ¥28.2 billion in notes and accounts receivable, trade, ¥28.3 billion in inventories, and ¥31.6 billion in other current assets, principally accrued receivables and deferred tax assets.

Investments in property, plant and equipment amounted to ¥22.6 billion (US$213.1 million) on a cash-flow basis. Principal investments included ¥12.2 billion for renewing the Company's Distributed Control System (DCS), heat exchange units, and other manufacturing equipment and ¥6.7 billion to prepare IPP-related facilities at the Yokkaichi Refinery. Investments in property, plant and equipment were also boosted due to the consolidation of additional subsidiaries. Because the Company sold certain assets and because its capital investment was exceeded by progress in depreciation, however, net property, plant and equipment fell ¥51.9 billion, to ¥540.1 billion (US$5,095.0 million).

The consolidation of additional subsidiaries reduced investments in unconsolidated subsidiaries, affiliates and securities. However, the addition of the assets of newly consolidated subsidiaries included in other assets, a rise in deferred assets, non-current, and other factors caused total other assets to grow ¥16.1 billion, to ¥140.6 billion (US$1,326.7 million).

Excluding minority interests, total liabilities increased 7.4%, or ¥75.0 billion, to ¥1,093.8 billion (US$10,319.3 million). Of this, short- and long-term interest-bearing debt rose ¥46.0 billion, to ¥687.6 billion (US$6,486.4 million).

Short-term loans and current maturities of long-term debt grew ¥11.4 billion, to ¥289.6 billion (US$2,732 million), reflecting the higher import financing requirement that stemmed from the rise in crude oil prices. Long-term debt, less current maturities, increased ¥34.6 billion, to ¥397.9 billion (US$3,754.0 million), principally due to the issuance of ¥25.0 billion in unsecured ordinary bonds as a means of procuring low-cost funds for the repayment of a convertible bond issue that matures during fiscal 2001.

Operating liabilities and other liabilities were up ¥29.0 billion, to ¥406.3 billion (US$3,832.8 million). This principally reflected a ¥57.8 billion increase in notes and accounts payable, trade, that accompanied the growth in crude oil prices and inventories and a ¥3.5 billion rise in deferred tax liabilities. Partially offsetting those factors was a ¥35.7 billion drop in accrued excise tax for oil products and other taxes that resulted from the shift into the start of the period under review of the payment date for excise tax for oil products and other taxes for the previous period.

Due to a decrease in retained earnings, total shareholders' equity declined ¥6.1 billion, to ¥180.4 billion (US$1,701.8 million), as the ¥4.8 billion in net income for the period was exceeded by the sum of dividends paid and the drop in consolidated retained earnings due to the consolidation of additional subsidiaries. Consequently, the equity ratio decreased 1.3 percentage points, to 13.9%.

Cash Flows

Cash and cash equivalents increased ¥58.7 billion during the year under review and amounted to ¥96.0 billion (US$905.8 million) at March 31, 2000.

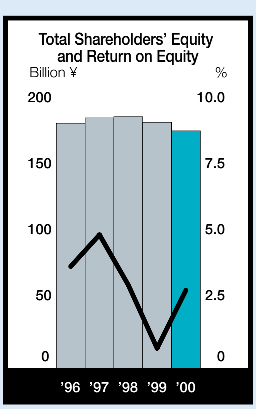
Net cash used in operating activities amounted to ¥42.7 billion (US$402.8 million). Cash inflow from income before income taxes and minority interests was ¥13.3 billion. After adjustment of ¥23.4 billion for depreciation and other noncash items, cash inflow excluding income, excise, and other taxes payable was held to ¥9.3 billion. This primarily reflected the lag of product selling prices behind rising crude oil procurement prices. Cash outflow attributable to changes in operating and other assets and liabilities was ¥52.0 billion. This reflected a ¥34.1 billion rise in notes and accounts receivable and inventories, compared with a ¥37.9 billion increase in notes and accounts payable. It also reflected the special factor of the disbursal of tax payments for the previous period at the start of the period under review, which led to a cash outflow of ¥42.5 billion.

Net cash provided by investing activities amounted to ¥13.5 billion (US$127.7 million). Capital investment of ¥24.2 billion was exceeded by ¥29.2 billion in proceeds from the disposals of underutilized real estate assets and other property, plant and equipment assets, generating ¥4.9 billion of net cash inflow. Net cash inflows from decreases in marketable securities and long-term loans receivable were ¥7.1 billion and ¥3.4 billion, respectively.

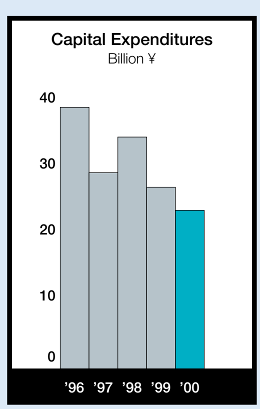
Net cash provided by financing activities totaled ¥31.3 billion (US$295.0 million). Changes in short- and long-term interest-bearing debt brought a net cash inflow of ¥35.2 billion. The cost of financing relatively expensive crude oil procurement was the principal factor behind an increase in short-term loans that caused a ¥9.8 billion cash inflow. Although ¥42.1 billion was used for repayments of convertible bonds, this was offset by a ¥55.0 billion cash inflow from the issuance of straight bonds and ¥12.5 billion in net cash inflow from an increase in long-term loans payable. Cash dividends paid amounted to ¥3.7 billion.

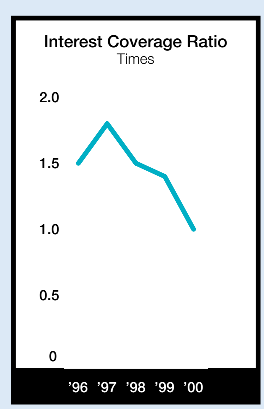
Response to the Y2K Issue

Positioning its response to potential difficulties arising from the Year 2000 (Y2K) problem as an important management priority, the Company established a Y2K Committee and methodically implemented countermeasures for the entire Cosmo Oil Group. Thanks to these efforts, no noteworthy malfunctions occurred due to the Y2K problem and there was no influence on corporate performance.



Total Shareholders' Equity (Left scale)
ROE (Right scale)





CONSOLIDATED BALANCE SHEETS

COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries
March 31, 1999 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	**2000**	**2000**
ASSETS:			
Current assets:			
Cash and deposits (Note 4)	¥ 37,354	**¥ 50,855**	**$ 479,764**
Marketable securities (Note 8)	96,871	**97,285**	**917,783**
Notes and accounts receivable, trade	187,830	**216,059**	**2,038,292**
Less allowance for doubtful accounts	(1,279)	**(1,134)**	**(10,698)**
	186,551	**214,925**	**2,027,594**
Inventories (Note 3)	135,200	**163,503**	**1,542,481**
Other current assets (Note 10)	56,862	**88,424**	**834,189**
Total current assets	512,838	**614,992**	**5,801,811**
Property, plant and equipment:			
Land	361,009	**326,214**	**3,077,491**
Buildings and structures	379,603	**352,779**	**3,328,104**
Machinery and equipment	313,488	**301,853**	**2,847,670**
Construction in progress	12,999	**15,366**	**144,962**
	1,067,099	**996,212**	**9,398,227**
Less accumulated depreciation	(475,148)	**(456,143)**	**(4,303,236)**
Net property, plant and equipment	591,951	**540,069**	**5,094,991**
Other assets:			
Investments in unconsolidated subsidiaries, affiliates and securities	65,745	**48,831**	**460,670**
Long-term loans receivable	13,625	**10,325**	**97,406**
Other (Note 10)	45,126	**81,476**	**768,641**
Total other assets	124,496	**140,632**	**1,326,717**
	¥1,229,285	**¥1,295,693**	**$12,223,519**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Current liabilities:			
Short-term loans and current maturities of long-term debt (Note 5)	¥ 278,277	**¥ 289,643**	**$ 2,732,481**
Notes and accounts payable, trade	125,996	**183,751**	**1,733,500**
Income, excise and other taxes payable	119,781	**84,098**	**793,377**
Accrued expenses and other current liabilities (Note 10)	90,022	**101,474**	**957,302**
Total current liabilities	614,076	**658,966**	**6,216,660**
Long-term debt, less current maturities (Note 5)	363,285	**397,920**	**3,753,962**
Retirement and severance benefits	2,466	**3,968**	**37,434**
Other long-term liabilities (Note 10)	39,047	**32,991**	**311,236**
Minority interests	23,915	**21,462**	**202,472**
Contingencies (Notes 6 and 7)			
Shareholders' equity:			
Common stock, par value ¥50 per share authorized–1,700,000,000 shares; issued–631,705,087 shares	51,887	**51,887**	**489,500**
Additional paid-in capital	34,092	**34,092**	**321,623**
Retained earnings	100,517	**94,883**	**895,123**
Less treasury stock, at cost	—	**(476)**	**(4,491)**
Total shareholders' equity	186,496	**180,386**	**1,701,755**
	¥1,229,285	**¥1,295,693**	**$12,223,519**

CONSOLIDATED STATEMENTS OF INCOME

COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries
Years ended March 31, 1998, 1999 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1999	**2000**	**2000**
Net sales	¥1,680,478	¥1,443,457	**¥1,584,678**	**$14,949,793**
Cost of sales	1,473,349	1,265,443	**1,427,640**	**13,468,302**
Gross profit	207,129	178,014	**157,038**	**1,481,491**
Selling, general and administrative expenses	179,228	155,154	**140,373**	**1,324,274**
Operating income	27,901	22,860	**16,665**	**157,217**
Other income (expenses):				
Interest and dividend income	2,076	2,177	**2,171**	**20,481**
Interest expense (Note 5)	(19,713)	(18,488)	**(18,991)**	**(179,160)**
Foreign currency exchange gain, net	1,953	2,629	**3,502**	**33,038**
Net gain on sale and disposal of property, plant and equipment	694	5,125	**13,819**	**130,367**
Equity in (losses) earnings of affiliates	1,906	(1,406)	**(1,798)**	**(16,962)**
Loss on liquidation of subsidiaries and affiliates	(2,313)	—	**—**	**—**
Write-down of marketable securities and investments in securities	(1,680)	(2,238)	**(2,312)**	**(21,811)**
Gain on sale of marketable securities	—	—	**7,063**	**66,632**
Special severance payments for early retired employees	—	(6,080)	**(6,956)**	**(65,623)**
Other, net	3,642	(228)	**150**	**1,415**
	(13,435)	(18,509)	**(3,352)**	**(31,623)**
Income before income taxes and minority interests	14,466	4,351	**13,313**	**125,594**
Income taxes:				
Current	8,092	3,269	**4,379**	**41,311**
Deferred (Note 10)	—	—	**3,745**	**35,330**
	8,092	3,269	**8,124**	**76,641**
Income before minority interests	6,374	1,082	**5,189**	**48,953**
Minority interests	(1,034)	(243)	**(348)**	**(3,283)**
Net income	¥ 5,340	¥ 839	**¥ 4,841**	**$ 45,670**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	¥ 8.45	¥ 1.33	**¥ 7.76**	**$ 0.07**
Diluted net income	8.27	—	**7.68**	**0.07**
Cash dividends	8.00	6.00	**6.00**	**0.06**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

COSMO OIL COMPANY, LIMITED and Its Consolidated Subsidiaries
Years ended March 31, 1998, 1999, and 2000

		Millions of yen			
	Number of shares of common stock (Thousands)	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
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 corporate auditors	—	—	—	(130)	—
Increase resulting from 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 corporate auditors	—	—	—	(100)	—
Increase resulting from decrease in consolidated subsidiaries	—	—	—	95	—
Balance at March 31, 1999	631,705	51,887	34,092	100,517	—
Net income for the year	**—**	**—**	**—**	**4,841**	**—**
Cash dividends paid	**—**	**—**	**—**	**(3,742)**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(26)**	**—**
Cumulative effect of adopting deferred income tax accounting	**—**	**—**	**—**	**955**	**—**
Increase resulting from increase in consolidated subsidiaries	**—**	**—**	**—**	**2,710**	**(476)**
Decrease resulting from increase in affiliates on equity method	**—**	**—**	**—**	**(3,751)**	**—**
Decrease resulting from decrease in affiliates on equity method	**—**	**—**	**—**	**(972)**	**—**
Decrease resulting from mergers	**—**	**—**	**—**	**(5,649)**	**—**
Balance at March 31, 2000	**631,705**	**¥51,887**	**¥34,092**	**¥ 94,883**	**¥(476)**

	Thousands of U.S. dollars (Note 1)			
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
Balance at March 31, 1999	$489,500	$321,623	$948,274	$ —
Net income for the year	**—**	**—**	**45,670**	**—**
Cash dividends paid	**—**	**—**	**(35,302)**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**(245)**	**—**
Cumulative effect of adopting deferred income tax accounting	**—**	**—**	**9,009**	**—**
Increase resulting from increase in consolidated subsidiaries	**—**	**—**	**25,566**	**(4,491)**
Decrease resulting from increase in affiliates on equity method	**—**	**—**	**(35,387)**	**—**
Decrease resulting from decrease in affiliates on equity method	**—**	**—**	**(9,170)**	**—**
Decrease resulting from mergers	**—**	**—**	**(53,292)**	**—**
Balance at March 31, 2000	**$489,500**	**$321,623**	**$895,123**	**$(4,491)**

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, 1998 and 1999

	Millions of yen	
	1998	1999
Cash flows from operating activities:		
Net income	¥ 5,340	¥ 839
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	34,228	21,773
Gain on disposals of property, plant and equipment	(694)	(5,125)
Write-down of marketable and investment securities	1,680	2,238
Gain on redemption of convertible bonds	(1,524)	(1,199)
Loss on collectible accounts receivable	2,313	974
Exchange gains on forward exchange contracts	(670)	—
Effect of decrease of consolidated subsidiaries	—	(289)
Bonuses to directors and statutory auditors	(130)	(100)
Decrease (increase) in other assets	(2,244)	2,221
Increase in retirement and severance benefits	58	84
Equity in losses (earnings) of affiliates	(1,906)	1,406
Increase (decrease) in minority interests	530	(459)
Other, net	4	18
Net (increase) decrease in current assets:		
Notes and accounts receivable	16,098	4,274
Inventories	19,899	10,410
Other current assets	279	6,242
Net increase (decrease) in current liabilities:		
Notes and accounts payable	(48,031)	(7,009)
Income, excise and other taxes payable	38,755	(5,655)
Accrued expenses and other current liabilities	673	(16,790)
Increase (decrease) in other long-term liabilities	(100)	3,865
Net cash provided by operating activities	64,558	17,718
Cash flows from investing activities:		
Purchases of property, plant and equipment	(34,175)	(31,325)
Proceeds from disposals of property, plant and equipment	12,144	17,945
Increase in marketable securities	(35,179)	(753)
Increase in investments in unconsolidated subsidiaries, affiliates and securities	(5,816)	(5,099)
Decrease in long-term loans receivable	3,582	1,426
Effect of the mergers	(88)	—
Net cash used in investing activities	(59,532)	(17,806)
Cash flows from financing activities:		
Proceeds from long-term loans payable	42,799	67,716
Repayments on long-term loans payable	(50,178)	(47,839)
Proceeds from issuing straight bonds	45,000	—
Repayments on notes with warrants	(28,896)	—
Decrease in short-term loans	(8,966)	(29,415)
Cash dividends paid	(5,054)	(5,054)
Net cash used in financing activities	(5,295)	(14,592)
Net decrease in cash	(269)	(14,680)
Cash at beginning of year	52,303	52,034
Cash at end of year	¥52,034	¥37,354

The accompanying notes are an integral part of these statements.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Cash flows from operating activities:		
Income before income taxes and minority interests	¥13,313	$125,594
Adjustments to reconcile income before income taxes and minority interests to net cash used in operating activities:		
Depreciation	23,436	221,094
Amortization of consolidation goodwill	431	4,066
Decrease in allowance for doubtful accounts	(121)	(1,142)
Increase in valuation allowance for investments in securities	185	1,745
Decrease in retirement and severance benefits	(1,502)	(14,170)
Decrease in reserve for inspection and maintenance of oil tanks	(3,639)	(34,330)
Increase in provision for loss of loan guarantee	558	5,264
Interest and dividend income	(2,171)	(20,481)
Interest expense	18,991	179,160
Equity in losses of affiliates	1,798	16,962
Gain on disposal of property, plant and equipment	(18,416)	(173,736)
Loss on disposal of property, plant and equipment	3,896	36,755
Gain on disposal of marketable and investment securities	(7,063)	(66,632)
Special severance payments for early retired employees	6,956	65,623
Increase in notes and accounts receivable	(11,731)	(110,670)
Increase in inventories	(22,364)	(210,981)
Increase in notes and accounts payable	37,916	357,699
Increase in other current assets	(23,297)	(219,783)
Decrease in other current liabilities	(28,289)	(266,877)
Decrease in other long-term liabilities	(8,080)	(76,226)
Other, net	3,876	36,566
Subtotal	(15,317)	(144,500)
Interest and dividend received	2,008	18,943
Interest paid	(18,841)	(177,745)
Amount of special severance payments for early retired employees	(6,956)	(65,623)
Income taxes paid	(3,592)	(33,887)
Net cash used in operating activities	(42,698)	(402,812)
Cash flows from investing activities:		
Payments for purchases of marketable securities	(16,708)	(157,623)
Proceeds from disposal of marketable securities	18,193	171,632
Payments for purchases of property, plant and equipment	(24,239)	(228,670)
Proceeds from disposal of property, plant and equipment	29,165	275,142
Payments for purchases of investment in securities	(6,274)	(59,189)
Proceeds from sale of investment in securities	8,719	82,255
Increase in intangible assets and deferred charges	(1,950)	(18,396)
Net increase from purchase of investment in a newly consolidated subsidiary	3,206	30,245
Payments for long-term-loans	(2,319)	(21,877)
Proceeds from long-term loans receivable	6,091	57,462
Other, net	(346)	(3,264)
Net cash provided by investing activities	13,538	127,717
Cash flows from financing activities:		
Increase in short-term loans	19,767	186,481
Repayment for commercial papers	(10,000)	(94,340)
Proceeds from long-term loans payable	61,516	580,340
Repayments for long-term loans payable	(48,999)	(462,255)
Proceeds from issuing straight bonds	55,000	518,868
Repayments for convertible bonds	(42,054)	(396,736)
Cash dividends paid	(3,742)	(35,302)
Other, net	(217)	(2,047)
Net cash provided by financing activities	31,271	295,009
Effect of exchange rate changes on cash and cash equivalents	(54)	(509)
Net increase in cash and cash equivalents	2,057	19,405
Cash and cash equivalents at beginning of year (Note 4)	89,735	846,557
Cash and cash equivalents from newly consolidated subsidiaries	4,221	39,821
Cash and cash equivalents at end of year (Note 4)	¥96,013	$905,783

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 presenting 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 and its consolidated subsidiaries 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 for 1998 and 1999 and the consolidated statements of shareholders’ equity have been prepared for the purpose of inclusion in the consolidated financial statements although such statements were not customarily prepared in Japan and not required to be filed with the MOF.

The translations 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, 2000, which was ¥106 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. All significant intercompany transactions and account balances are eliminated in the consolidation.

Effective for the year ended March 31, 2000, all companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions. Previously, only majority-owned companies were consolidated. As a result of adopting this rule, one subsidiary which was not consolidated as of March 31, 1999 has become a consolidated subsidiary as of March 31, 2000.

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

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

Investments in non-consolidated subsidiaries and affiliates of which the Company has the ability to exercise significant influence over operating and financial policies, are accounted for on the equity method. Prior to April 1, 1999, only investments in companies of which the Company owned 20% to 50% of the voting rights and had the ability to significantly influence over financial, operational or business policies were accounted for using the equity method. There was no effect of adopting the new accounting standard.

The numbers of consolidated subsidiaries and affiliates accounted for using the equity method at March 31, 1998, 1999 and 2000 were as follows:

	1998	1999	**2000**
Consolidated subsidiaries	21	18	**22**
Affiliates on equity method	3	3	**3**

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

(3) Statements of cash flows

In preparing the consolidated statements of cash flows for 2000, cash on hand, readily available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

The Company prepared the 2000 consolidated statement of cash flows as required by and in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000. The 1998 and 1999 consolidated statements of cash flows, which were voluntarily prepared for the purpose of inclusion in the consolidated financial statements in a form familiar to readers outside Japan, have not been restated. Significant differences in the consolidated statements of cash flows for 2000 and those for the other years include the use of pretax income in 2000 instead of net income and additional disclosure in cash flows from operating activities in 2000 of interest expense, interest and dividend income, interest paid, interest and dividend received and income taxes paid.

(4) Conversion of foreign currencies and translation of statements

Cash denominated in foreign currencies is translated at the exchange rate prevailing at the balance sheet date. Other assets and liabilities denominated in foreign currencies are converted 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 overseas consolidated subsidiaries are translated into Japanese yen at the year-end 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 "Other assets: other."

(5) Allowance for doubtful accounts

Notes and accounts receivable, as well as loans and other receivable, are evaluated as to their collectibility. Allowance for doubtful accounts is provided at the maximum amount for possible losses with respect to doubtful accounts which could be charged to income under the Japanese income tax laws plus uncollectible amounts estimated individually.

(6) Marketable securities and investments in unconsolidated subsidiaries, affiliates and securities

Marketable securities, investments in unconsolidated subsidiaries, affiliates and other securities are primarily stated at cost determined by the moving-average method.

(7) 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.

Effective April 1, 1998, the 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 as discussed in Note 2.

(8) Property, plant and equipment and depreciation

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

The cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the related accounts and the gain or loss on 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.

Effective April 1, 1998, the Company changed the depreciation method of property, plant and equipment from the declining-balance method to the straight-line method as discussed in Note 2.

(9) Research and development costs

Research and development costs for the improvement of existing skills and technologies or the development of new skills and technologies, including basic research and fundamental development costs, are charged to operations in the period incurred.

In accordance with the provisional rule of the JICPA's Accounting Committee Report No. 12 "Practical Guidance for Accounting for Research and Development Costs, etc." (the "Report"), the Company accounts for software for its own use in the same manner in 2000 as in 1999. Pursuant to the Report, the Company included such software in intangible assets in 2000. It was previously included in long-term prepaid expense. The Company amortized it using the straight-line method over the estimated useful lives (five years).

(10) 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 rate 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 expected to be covered by a non-contributory trusted pension plan as discussed below. Such liability is not funded.

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

The past service costs relating to the funded pension plan are amortized using the declining-balance method at 20%.

(11) Finance leases

Finance leases except for those leases 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.

(12) 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 credited to common stock. The portion which is to be credited to common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts credited to common stock are credited to additional paid-in capital.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors are required to be set aside as a legal reserve until the reserve equals 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

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 5).

(13) Issuance costs of corporate bonds

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

(14) Income taxes

The Company provided income taxes at the amounts currently payable for the years ended March 31, 1998 and 1999. Effective April 1, 1999, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999 is reflected as an adjustment of ¥955 million ($9,009 thousand) to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

The effect for the year ended March 31, 2000 was to decrease net income by ¥3,187 million ($30,066 thousand) and to increase net assets at that date by ¥3,433 million ($32,387 thousand).

(15) Net income per share

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

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

(16) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

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

2 CHANGES IN ACCOUNTING POLICY

(1) Change in depreciation method

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

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 was considered more appropriate depreciation on Financial Statements by adopting the straight-line method.

Another reason for this change was the change in tax laws, which allowed only straight-line method of depreciation for buildings and structures acquired on or after April 1, 1998.

As a result of this change, depreciation expense was decreased by ¥8,716 million and income before income taxes was increased by ¥8,708 million for the year ended March 31, 1999.

(2) Change in valuation method of inventories

Effective April 1, 1998, the 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.

At that time, importing gas prices had been altered drastically and to compute more appropriate gross profit from the gas sales, Cosmo Petroleum Gas Co., Ltd., had decided to adopt the LIFO method.

As a result of this change, the cost of sales was decrease by ¥1,304 million and the income before income taxes was increased by ¥1,304 million for the year ended March 31, 1999.

3 INVENTORIES

Inventories at March 31, 1999 and 2000 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	**2000**	**2000**
Finished products	¥ 39,475	**¥ 36,633**	**$ 345,594**
Semi-finished products	25,467	**23,291**	**219,726**
Materials—crude oil, auxiliary materials, etc.	36,297	**27,853**	**262,764**
Supplies—spare parts, etc.	7,810	**7,849**	**74,047**
In-transit crude oil and oil products	26,056	**59,968**	**565,737**
Land for sale	—	**3,217**	**30,349**
Others	95	**4,692**	**44,264**
Total	¥135,200	**¥163,503**	**$1,542,481**

4 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Cash and deposits and cash and cash equivalents

Reconciliation of cash and deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows is as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	**2000**	**2000**
Cash and deposits	¥37,354	**¥50,855**	**$479,764**
Add:			
Marketable securities	96,871	**97,285**	**917,783**
Less:			
Deposits with maturities exceeding three months	—	**940**	**8,868**
Stock and bonds with maturities exceeding three months included in marketable securities above	44,490	**51,187**	**482,896**
Total	¥89,735	**¥96,013**	**$905,783**

(2) Summary information of a newly consolidated subsidiary

Summary information of assets and liabilities of a newly consolidated subsidiary at the time it was consolidated, the acquisition cost of the subsidiary's shares and cash and cash equivalents of the subsidiary are as follows:

	December 31, 1999	
Entity acquired: Toyokokusai-sekiyu	Millions of yen	Thousands of U.S. dollars
Current assets	¥20,009	$188,764
Fixed assets	9,579	90,368
Current liabilities	(22,953)	(216,538)
Long-term liabilities	(2,705)	(25,519)
Consolidation goodwill	(79)	(745)
Minority interests	(2,124)	(20,038)
Acquisition cost of the shares of the subsidiary	1,727	16,292
Cash and cash equivalents of the subsidiary	4,933	46,537
Net increase from purchase of investment in a newly consolidated subsidiary	¥ 3,206	$ 30,245

5

SHORT-TERM LOANS AND LONG-TERM DEBT

Included in short-term loans at March 31, 1999 and 2000 were import bills payable and import financing bills payable to banks aggregating ¥2,142 million and ¥3,037 million ($28,651 thousand), respectively. These bills bear interest from 5.33% to 5.95% and from 6.73% to 6.75%, per annum, respectively, and mature at various dates, mainly 45 days after issuance. The remaining short-term loans of ¥187,436 million and ¥214,753 million ($2,025,972 thousand), at March 31, 1999 and 2000, respectively, from banks bear interest from 0.57% to 3.60% and from 0.10% to 2.20% per annum, respectively. The banks have basic agreements with the Company and its consolidated subsidiaries to the effect that, with respect to all present or future loans with the banks, the Company and its consolidated subsidiaries shall provide collateral (including sums on deposit with such banks) or 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 the banks.

Commercial papers of ¥10,000 million at March 31, 1999 bear interest from 0.39% to 0.49% per annum.

Short-term loans at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	**2000**	**2000**
Short-term loans	¥189,578	**¥217,790**	**$2,054,623**
Current maturities of long-term debt	78,699	**71,853**	**677,858**
Commercial papers	10,000	**—**	**—**
Total	¥278,277	**¥289,643**	**$2,732,481**

Long-term debt at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	**2000**	**2000**
Loans from banks, insurance companies and other financial institutions, secured, with interest at 0.8%–7.7% due serially through 2027	¥290,155	**¥305,370**	**$2,880,848**
4.4% unsecured convertible yen bonds due in 2001	44,535	**44,535**	**420,140**
3.4% unsecured convertible yen bonds due in 2000	38,816	**—**	**—**
1.1% unsecured convertible yen bonds due in 2005	23,478	**19,868**	**187,433**
2.8% unsecured straight yen bonds due in 2003	15,000	**15,000**	**141,509**
3.3% unsecured straight yen bonds due in 2007	10,000	**10,000**	**94,340**
3.15% unsecured straight yen bonds due in 2007	10,000	**10,000**	**94,340**
2.30% unsecured straight yen bonds due in 2002	10,000	**10,000**	**94,340**
2.72% unsecured straight yen bonds due in 2003	—	**5,000**	**47,170**
3.08% unsecured straight yen bonds due in 2004	—	**5,000**	**47,170**
3.50% unsecured straight yen bonds due in 2005	—	**5,000**	**47,170**
3.10% unsecured straight yen bonds due in 2005	—	**5,000**	**47,170**
2.34% unsecured straight yen bonds due in 2003	—	**5,000**	**47,170**
2.70% unsecured straight yen bonds due in 2004	—	**5,000**	**47,170**
3.00% unsecured straight yen bonds due in 2006	—	**5,000**	**47,170**
2.45% unsecured straight yen bonds due in 2004	—	**5,000**	**47,170**
2.83% unsecured straight yen bonds due in 2005	—	**5,000**	**47,170**
3.05% unsecured straight yen bonds due in 2006	—	**5,000**	**47,170**
2.86% unsecured straight yen bonds due in 2005	—	**5,000**	**47,170**
	441,984	**469,773**	**4,431,820**
Less current maturities	(78,699)	**(71,853)**	**(677,858)**
Total	¥363,285	**¥397,920**	**$3,753,962**

The aggregate annual maturities of long-term debt at March 31, 2000 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2001	¥ 71,853	$ 677,858
2002	33,622	317,189
2003	55,389	522,538
2004	94,027	887,047
2005 and thereafter	214,882	2,027,188
	¥469,773	$4,431,820

The 4.4% unsecured convertible yen bonds in the original principal amount of ¥48,000 million were issued in October 1991. The bonds are subject to conversion currently at ¥900 ($8.49) for one share of the common stock of the Company from December 2, 1991 to March 29, 2001. At March 31, 2000, 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 original principal amount of ¥40,000 million were issued in March 1993. The Company fully redeemed the bonds from the market in this fiscal year.

The 1.1% unsecured convertible yen bonds in the original principal amount of ¥30,000 million were issued in March 1994. The bonds are subject to conversion currently at ¥877 ($8.27) for one share of the common stock of the Company from April 1, 1994 to March 30, 2005. At March 31, 2000, 22,653 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 the 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 must not exceed ¥6,600 million ($62,264 thousand) plus the Company's cumulative net income for the fiscal years following March 31, 1992. And so long as the 1.1% bonds are outstanding, the cumulative amounts of payments of cash dividends must not exceed ¥7,300 million ($68,868 thousand) plus the Company's cumulative net income for the fiscal years following March 31, 1994.

6

LEASE TRANSACTIONS

A. Lessee leases

Lease payments of finance leases which do not transfer ownership of the leased assets to the lessee for the years ended March 31, 1998, 1999 and 2000 were ¥824 million, ¥747 million and ¥5,234 million ($49,377 thousand), respectively.

Total lease commitments as of March 31, 1998, 1999 and 2000, inclusive of interest expense under such leases, were ¥1,895 million, ¥1,471 million and ¥11,407 million ($107,613 thousand), including ¥728 million, ¥583 million and ¥4,706 million ($44,396 thousand) due within one year. Included in the total lease commitment as of March 31, 2000 is commitment for sub-lease payment of ¥9,676 million ($91,283 thousand).

Equivalent of acquisition cost, accumulated depreciation and book value of leased properties for the years ended March 31, 1999 and 2000, were as follows:

	Millions of yen		
Year ended March 31, 1999	Machinery & vehicles	Other	Total
Acquisition cost	¥2,139	¥1,975	¥4,114
Accumulated depreciation	(1,271)	(1,372)	(2,643)
Net book value	¥ 868	¥ 603	¥1,471

	Millions of yen			Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2000	Machinery & vehicles	Other	Total	Machinery & vehicles	Other	Total
Acquisition cost	**¥1,626**	**¥2,740**	**¥4,366**	**$15,340**	**$25,849**	**$41,189**
Accumulated depreciation	**(974)**	**(1,665)**	**(2,639)**	**(9,189)**	**(15,707)**	**(24,896)**
Net book value	**¥ 652**	**¥1,075**	**¥1,727**	**$ 6,151**	**$10,142**	**$16,293**

B. Lessor leases

Rental income from finance leases which do not transfer ownership of the leased assets to lessee and related depreciation for the year ended March 31, 2000 were ¥4,596 million ($43,358 thousand) and ¥76 million ($717 thousand), respectively.

Total lease commitments as of March 31, 2000, inclusive of interest income under such leases, were ¥10,133 million ($95,594 thousand), including ¥4,205 million ($39,670 thousand) due within one year. Included in the total lease commitment as of March 31, 2000 is commitment for sub-lease payment of ¥10,076 million ($95,057 thousand).

Acquisition cost, accumulated depreciation and book value of leased properties for the year ended March 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year ended March 31, 2000	Machinery and equipment	Machinery and equipment
Acquisition cost	¥1,942	$18,321
Accumulated depreciation	(1,768)	(16,679)
Net book value	¥ 174	$ 1,642

7 CONTINGENCIES

(a) Contingent liabilities for notes receivable discounted at banks with recourse and endorsed to others at March 31, 2000 were ¥82 million ($774 thousand).

(b) Contingencies at March 31, 2000 for loans guaranteed, in the ordinary course of business, by the Company and its consolidated subsidiaries, mainly for unconsolidated subsidiaries, affiliates and employees of the Company and its consolidated subsidiaries were ¥37,791 million ($356,519 thousand).

8 MARKET VALUE INFORMATION

At March 31, 2000, book value, market value and net unrealized gain (loss) of marketable securities in current assets and investments were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2000			2000		
	Book value	Market value	Unrealized gain (loss)	Book value	Market value	Unrealized gain (loss)
Current assets:						
Shares	¥49,600	¥46,068	¥(3,532)	$467,925	$434,604	$(33,321)
Bonds	468	478	10	4,415	4,509	94
	¥50,068	¥46,546	¥(3,522)	$472,340	$439,113	$(33,227)
Non-current assets:						
Shares	¥ 706	¥ 1,176	¥ 470	$ 6,660	$ 11,094	$ 4,434
Bonds	1,800	1,822	22	16,981	17,189	208
	¥ 2,506	¥ 2,998	¥ 492	$ 23,641	$ 28,283	$ 4,642

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.

9 DERIVATIVE TRANSACTIONS

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

The Company and its consolidated subsidiaries use foreign currency forward contracts and currency option contracts to offset the exposure to market risks arising from changes in foreign exchange rates. The Company enters into interest rate swap contracts, exchanging floating rate payment obligations to fixed rate payment obligations, to reduce the Company's exposure to adverse movements in interest rates. The Company and its consolidated subsidiaries also utilize 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 currency option contracts are implemented and controlled by the finance department in accordance with the internally authorized rules. The Financial Controller reports the results of transactions to, and obtain authorization of basic transaction policy from the meeting of the Executive Committee on a quarterly basis for foreign currency forward contracts and semi-annually for other contracts. Commodity forward contracts of crude oil and refined products are implemented and controlled by the demand & supply coordination department and the international petroleum department in accordance with the internally authorized rules. General Managers of each department report the results of commodity swap transaction to, and obtain authorization of basic transaction policy for the year from the meeting of the Executive Committee on a semi-annual basis.

At March 31, 2000, the Company had outstanding off-balance derivative transactions as below:

(1) Currency

	Millions of yen				
	Contract amounts			Market value	Unrealized gain (loss)
	Due within one year	Due after one year	Total		
Currency option contracts purchased call U.S. dollars	**¥5,850**	**—**	**¥5,850**	**¥51**	**¥(24)**

	Thousands of U.S. dollars (Note 1)				
	Contract amounts			Market value	Unrealized gain (loss)
	Due within one year	Due after one year	Total		
Currency option contracts purchased call U.S. dollars	**$55,187**	**—**	**$55,187**	**$481**	**$(226)**

(2) Interest rate

	Millions of yen				
	Notional amount			Market value	Unrealized gain (loss)
	Due within one year	Due after one year	Total		
Interest rate swap contracts					
Pay fixed rate, receive floating rate	**¥3,000**	**¥49,900**	**¥52,900**	**¥(2,521)**	**¥(2,521)**
Pay floating rate, receive fixed rate	**¥ —**	**¥ 5,000**	**¥ 5,000**	**¥ 2**	**¥ 2**

	Thousands of U.S. dollars (Note 1)				
	Notional amount			Market value	Unrealized gain (loss)
	Due within one year	Due after one year	Total		
Interest rate swap contracts					
Pay fixed rate, receive floating rate	**$28,302**	**$470,755**	**$499,057**	**$(23,783)**	**$(23,783)**
Pay floating rate, receive fixed rate	**$ —**	**$ 47,170**	**$ 47,170**	**$ 19**	**$ 19**

(3) Commodity

	Thousands of barrels			Millions of yen	
	Notional amount			Market value	Unrealized gain (loss)
	Due within one year	Due after one year	Total		
Swap contracts of crude oil					
Pay fixed rate, receive floating rate	**1,115**	**—**	**1,115**	**¥ (41)**	**¥(41)**
Pay floating rate, receive fixed rate	**100**	**—**	**100**	**¥ 3**	**¥ 3**
	Due within one year	Due after one year	Total		
Forward contracts of crude oil					
Sell	**¥1,803**	**—**	**¥1,803**	**¥1,714**	**¥ 88**
Buy	**¥1,804**	**—**	**¥1,804**	**¥1,714**	**¥(90)**

	Thousands of barrels			Thousands of U.S. dollars (Note 1)	
	Notional amount			Market value	Unrealized gain
	Due within one year	Due after one year	Total		
Swap contracts of crude oil					
Pay fixed rate, receive floating rate	**1,115**	**—**	**1,115**	**$ (387)**	**$(387)**
Pay floating rate, receive fixed rate	**100**	**—**	**100**	**$ 28**	**$ 28**

	U.S. dollars (Note 1)				
	Notional amount			Market value	Unrealized gain
	Due within one year	Due after one year	Total		
Forward contracts of crude oil					
Sell	**$17,009**	**—**	**$17,009**	**$16,170**	**$ 830**
Buy	**$17,019**	**—**	**$17,019**	**$16,170**	**$(849)**

10
INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 46% and 61% for the years ended March 31, 1999 and 2000, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2000:

Statutory tax rate	40.87%
Non-Japanese taxes	13.94
Foreign tax credits taken	(3.61)
Non-taxable dividend income	(5.43)
Non-deductible expenses	13.47
Per capital inhabitants taxes	1.02
Other	0.76
Effective tax rate	61.02%

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current deferred tax assets:		
Accounts receivable	¥ 2,638	$ 24,887
Unrealized gains	582	5,491
Excess bonuses accrued	540	5,094
Other	546	5,151
Total current deferred tax assets	4,306	40,623
Valuation allowance	(126)	(1,189)
Net current deferred tax assets	¥ 4,180	$ 39,434
Current deferred tax liabilities:		
Allowance for doubtful accounts	¥ (111)	$ (1,047)
Exchange losses	(106)	(1,000)
Other	(21)	(198)
Total current deferred tax liabilities	(238)	(2,245)
Net current deferred tax assets	¥ 3,942	$ 37,189
Non-current deferred tax assets:		
Unrealized gains	¥ 10,765	$ 101,557
Net operating loss carry forward	4,916	46,377
Depreciation	3,414	32,208
Other	2,296	21,660
Total non-current deferred tax assets	21,391	201,802
Valuation allowance	(3,247)	(30,632)
Total non-current deferred tax assets	18,144	171,170
Account offset against deferred tax liabilities	(15,151)	(142,934)
Net non-current deferred tax assets	¥ 2,993	$ 28,236
Non-current deferred tax liabilities:		
Reserve for deferred gains on sales of fixed assets for tax purposes	(¥17,587)	($165,915)
Reserve for losses on overseas investments	(672)	(6,340)
Special depreciation	(351)	(3,311)
Other	(32)	(302)
Total non-current deferred tax liabilities	(18,642)	(175,868)
Account offset against deferred tax assets	15,151	142,934
Net non-current deferred tax liabilities	¥ (3,491)	$ (32,934)

11 SEGMENT INFORMATION

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

For the year ended March 31, 1999 business segment information was not required to be disclosed as all of sales, operating income and assets of the oil business segment exceeded 90% of total segment sales (including inter-segment sales or transfers), operating income of all segments which did not record any operating loss, and total segment assets, respectively.

For the year ended March 31, 2000, business operations of the Company and its consolidated subsidiaries are summarized by product groups as follows:

	Millions of yen					
	Petroleum	Real Estate	Others	Total	Elimination or corporate	Consolidated
Sales:						
Outside customers	¥1,523,699	¥6,373	¥54,606	¥1,584,678	¥ —	¥1,584,678
Inter-segment	¥ 3,329	¥ —	¥15,127	¥ 18,456	¥(18,456)	¥ —
Total	¥1,527,028	¥6,373	¥69,733	¥1,603,134	¥(18,456)	¥1,584,678
Operating expenses	¥1,516,189	¥1,830	¥68,779	¥1,586,798	¥(18,785)	¥1,568,013
Operating income	¥ 10,839	¥4,543	¥ 954	¥ 16,336	¥ 329	¥ 16,665
Identifiable assets, depreciation and capital expenditures:						
Assets	¥1,173,266	¥6,227	¥36,510	¥1,216,003	¥ 79,690	¥1,295,693
Depreciation and amortization	¥ 24,179	¥ 151	¥ 178	¥ 24,508	¥ (1,072)	¥ 23,436
Capital expenditures	¥ 24,710	¥ —	¥ 170	¥ 24,880	¥ (107)	¥ 24,773

	Thousands of U.S. dollars (Note 1)					
	Petroleum	Real Estate	Others	Total	Elimination or corporate	Consolidated
Sales:						
Outside customers	$14,374,519	$60,123	$515,151	$14,949,793	$ —	$14,949,793
Inter-segment	31,405	—	142,708	174,113	(174,113)	—
Total	$14,405,924	$60,123	$657,859	$15,123,906	$(174,113)	$14,949,793
Operating expenses	$14,303,670	$17,264	$648,859	$14,969,793	$(177,217)	$14,792,576
Operating income	$ 102,254	$42,859	$ 9,000	$ 154,113	$ 3,104	$ 157,217
Identifiable assets, depreciation and capital expenditures:						
Assets	$11,068,547	$58,745	$344,434	$11,471,726	$ 751,792	$12,223,519
Depreciation and amortization	$ 228,104	$ 1,424	$ 1,679	$ 231,207	$ (10,113)	$ 221,094
Capital expenditures	$ 233,113	$ —	$ 1,604	$ 234,717	$ (1,009)	$ 233,708

Geographic segment information is not disclosed as the Company and its consolidated subsidiaries operate mainly in one geographic segment, being Japan.

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

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SUBSEQUENT EVENTS

(1) Subsequent to March 31, 2000, the Company issued unsecured straight bonds with the intent to apply the proceeds for repayment of previously issued bonds, based on the decision of the board meeting held on February 1, 2000.

On May 19, 2000, the Company issued unsecured straight bonds in the principal amount of ¥5,000 million ($47,170 thousand) with interest rate at 2.50% p.a. due on May 19, 2004. On May 24, 2000, the Company issued unsecured straight bonds in the principal amount of ¥5,000 million ($47,170 thousand) with interest rate at 2.84% p.a. due on May 24, 2005.

(2) The Company transferred the facilities of 396 gas stations for ¥42,000 million ($396,226 thousand) to OKS Realty Y.K. through securitization, in order to improve its financial strength, in following the decision of the meeting of Board of Directors held on May 25, 2000.

(3) On April 25, 2000, the following 12 subsidiaries agreed to merge into one company, Cosmo Oil Service Corporation, to improve their financial position, effective July 1, 2000: Tokyo Cosmo Oil Service (the surviving company), Hamamatsu Cosmo, Kitakantou Sekiyu, Ekusasu, Koashouji, Nagoya C.S.N, Osaka Cosmo Sekihan, Hiroshima Sekiyu, Cosmo Neo Corporation, Shikoku Cosmo Sekihan, Kyushu Cosmo Sekiyu Hanbai and Kitakyushu Cosmo Oil Service.

These 12 companies are wholly-owned by the Company as of July 1, 2000 and the shares will be exchanged at the ratio of 1 to 1. There will be no cash consideration given in the merger.

(4) On June 29, 2000, the Company's annual shareholders' meeting approved the payment of a year-end cash dividend of ¥3.00 (US$0.03) per share, or a total of ¥1,895 million (US$17,877 thousand) to shareholders of record, at March 31, 2000.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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 its consolidated subsidiaries as of March 31, 1999 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2000, 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 its consolidated subsidiaries as of March 31, 1999 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 1, in the year ended March 31, 2000, COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting, income taxes and research and development costs. Also, COSMO OIL COMPANY, LIMITED changed the depreciation method, effective April 1, 1998, as referred to in Note 2 and a consolidated domestic subsidiary changed the valuation method of inventories, effective April 1, 1998, as referred to in Note 2, with which we concur.

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.

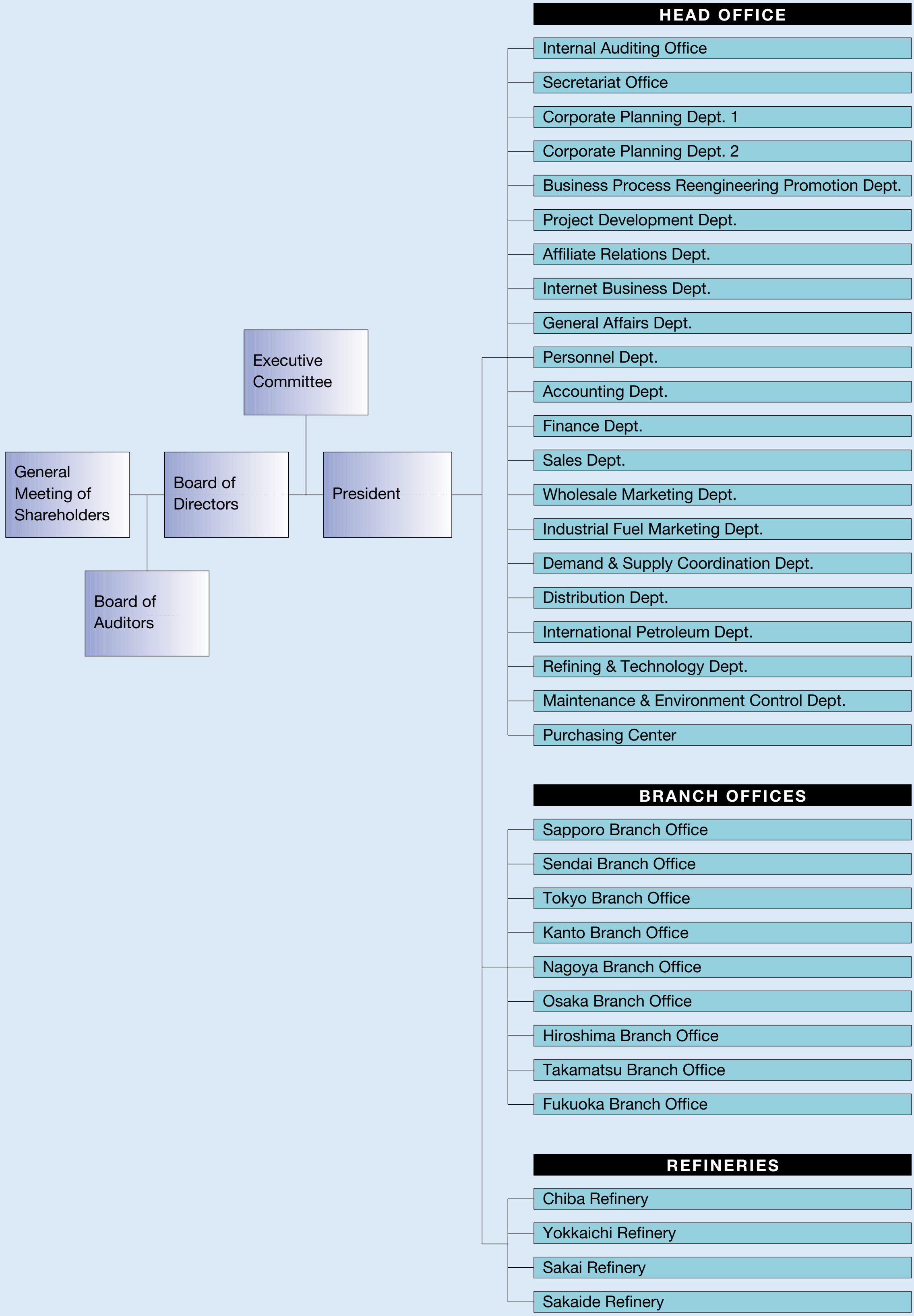
Tokyo, Japan
June 29, 2000

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 consolidated 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 consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

ORGANIZATION CHART

(As of June 29, 2000)



MAJOR SUBSIDIARIES AND AFFILIATES

(As of March 31, 2000)

JAPAN

Crude Oil Development

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

Cosmo Oil Ashmore Ltd.
- Tokyo
- ¥527 million
- 60.09%
- Crude-oil development

United Petroleum Development Co., Ltd.
- Tokyo
- ¥34,073 million
- 13.27%
- Petroleum exploration and production

#Mubarraz Oil Co., Ltd.
- Tokyo
- ¥32,877 million
- 20.29%
- 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
- ¥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.
- Mie Pref.
- ¥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
- 50.00%
- 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
- 92.76%
- 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.**
- Osaka

***Shikoku Cosmo Sekihan Co., Ltd.**
- Kochi

***Kyushu Cosmo Sekihan Co., Ltd.**
- Fukuoka

***Cosmo Neo Corporation**
- Hiroshima

***Hokkaido Cosmo Sekihan Co., Ltd.**
- Hokkaido

***Exus Corporation**
- Yamanashi

***Hiroshima Sekiyu Co., Ltd.**
- Hiroshima

Research & Development

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

Engineering

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

Others

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

***Cosmo Trade & Service Co., Ltd.**
- Tokyo
- ¥200 million
- 100.00%
- Service-station-related business and other services

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

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

OVERSEAS

***Cosmo Oil International Pte., Ltd.**
- Singapore
- S$19,500,000
- 100.00%
- Purchase and sale of crude oil and finished products

Cosmo Oil of U.S.A., Inc.
- New York
- US$250,000
- 100.00%
- Business services for Cosmo Oil Co., Ltd.

Cosmo Oil (U.K.) Plc.
- London
- US$4,982,342
- 100.00%
- Purchase and sale of crude oil and finished products

Cosmo Lubricants (Taiwan) Co., Ltd.
- Taipei
- N.T.$15,000,000
- 100.00%
- Lubricating oil sales

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

*Consolidated
#Consolidated by the equity method

(As of March 31, 2000)

COSMO OIL CO., LTD.

Head Office
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
¥51,886 million

Stock Listings
Tokyo, Osaka, Nagoya

Number of Employees
2,048

Number of Dealers
455

Number of Service Stations Owned
6,105

Number of Branches
9

Number of Shareholders
46,168

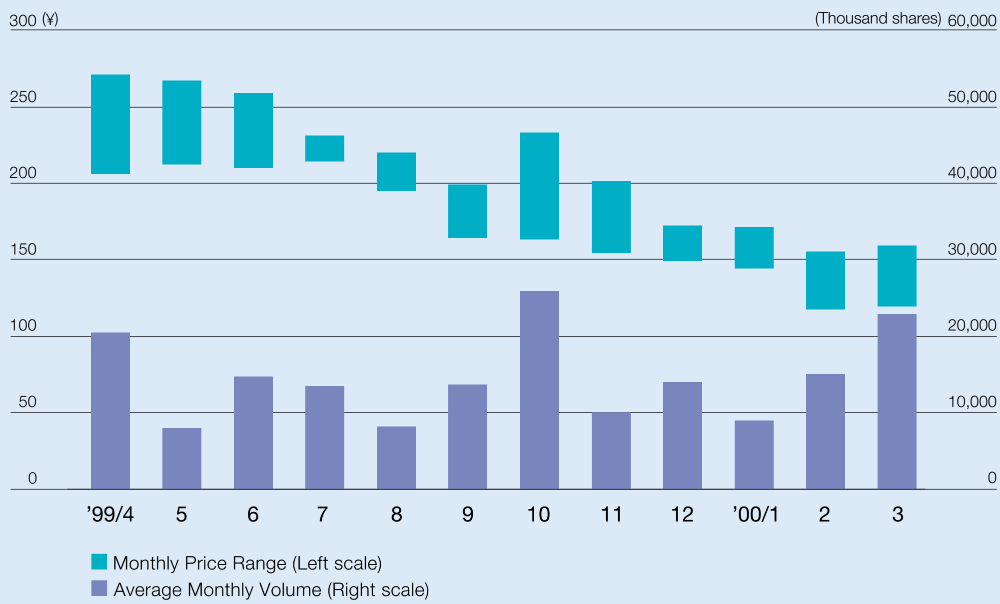
Transfer Agent
The Chuo Mitsui Trust & Banking Co., Ltd.
1-7-1, Kyobashi 1-chome,
Chuo-ku, Tokyo 104-8345, Japan

Independent Certified Public Accountants
Asahi & Co.

Principal Shareholders

	Number of shares owned (Thousands)	Percentage of total shares issued
The Industrial Bank of Japan, Limited	31,531	4.99%
The Sanwa Bank, Limited	25,259	3.99
Cosmo Oil Employees' Shareholding Association	19,871	3.14
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	15,931	2.52
The Yasuda Fire and Marine Insurance Company, Limited	14,473	2.29
The Bank of Tokyo-Mitsubishi, Limited	14,265	2.25
The Toyo Trust and Banking Company, Limited	12,795	2.02
The Nippon Life Insurance Company, Limited	11,990	1.89

Price Range of Stock and Trading Volume



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1-1-1, Shibaura, Minato-ku, Tokyo 105-8528, Japan

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