COSMO OIL CO., LTD.

ANNUAL REPORT 2005

For the year ended March 31, 2005

Next Growth Stage From A Vital Business

PROFILE

It has been two years since the Cosmo Oil Group launched its consolidated mid-term management plan in April 2003, which was aimed at improving the Group's earnings base and financial structure. Under this plan, the Group worked to rationalize operations and improve value-added throughout its entire business operations, from refining to marketing and related businesses. As a result, earnings power has improved, and a base has been established for the next growth stage. From April 2005, the Group has launched a "New Consolidated Mid-Term Management Plan" in response to changes in the operating environment in order to place greater emphasis on higher value-added business development. The Group's aim is to provide maximum value-added for all of the Group's stakeholders.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains various forward-looking statements related to the Cosmo Oil Group's future scheduled and forecast plans, strategies and business performance. Rather than describing actual performance, these statements are projections derived from the assumptions and beliefs of Cosmo Oil based on currently available information. In addition, these projections are subject to many risks and uncertainties related to the petroleum industry, including severe competition, market supply-demand, regulations and other risks. Accordingly, we caution readers not to rely excessively on these forward-looking statements. Actual performance and results may differ greatly from the Group's projections.

1) "Dissolution of Excess Supply": Dramatic Shift in the Operating Environment

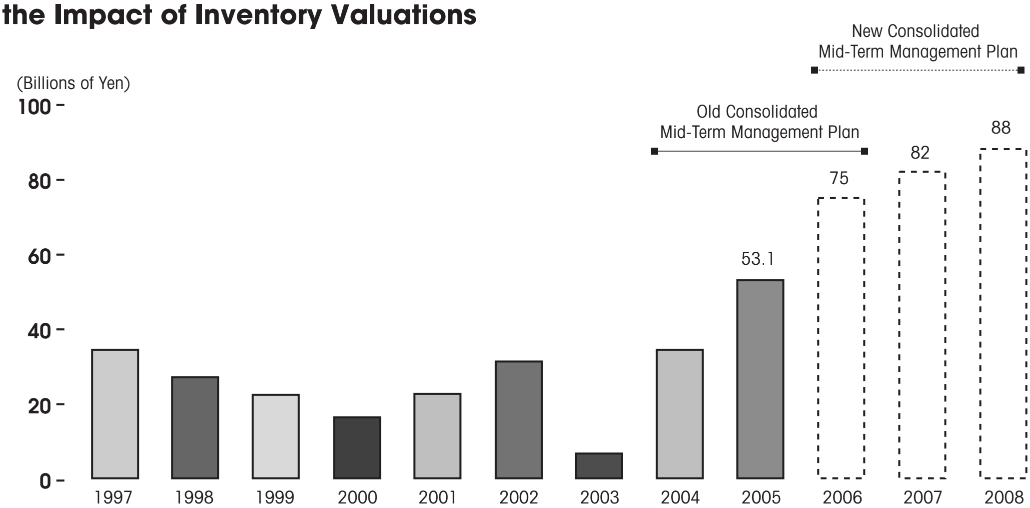
2) Progress in Management Strategies in Response to Market Changes

3) Achievement of Consolidated Mid-Term Management Plan (Fiscal 2004–Fiscal 2006) Goals

>>>> Earnings Power Improvement

Towards the Next Growth Stage

Trend in Operating Income Adjusted for the Impact of Inventory Valuations



* The gross average method was adopted as the inventory valuation method from fiscal 2000.
* Fiscal years ending March 31 of the following calender year.

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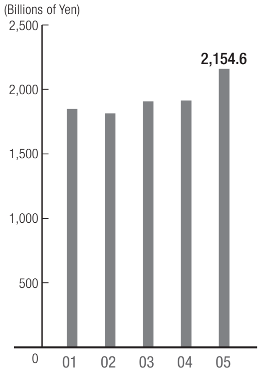
FINANCIAL HIGHLIGHTS

Cosmo Oil Company, Limited and its Consolidated Subsidiaries for the Years ending March 31

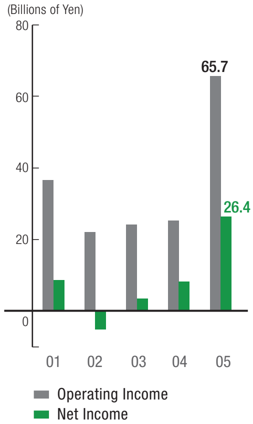
	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
FOR THE YEAR:				
Net sales	1,902,768	1,916,278	2,154,559	20,062,939
Operating income	24,167	25,246	65,698	611,770
Net income	3,426	8,179	26,415	245,973
AT YEAR END:				
Total assets	1,246,730	1,260,092	1,323,149	12,320,970
Shareholders' equity	193,595	204,806	227,897	2,122,144
Interest-bearing debt	562,649	559,259	497,804	4,635,478
	Yen			U.S. Dollars
AMOUNTS PER SHARE:				
Net income per share	5.42	12.95	41.73	0.39
Shareholders' equity per share	306.67	324.43	360.93	3.36
Cash dividends	6.00	6.00	8.00	0.07
RATIOS:				
ROA (%)	0.3	0.7	2.0	
ROE (%)	1.8	4.1	12.2	
Debt-to-equity ratio (Times)	2.9	2.7	2.2	

Note: U.S. dollar amounts in this report have been translated, for convenience only, at the exchange rate of ¥107.39 = $1.00, the prevailing rate at March 31, 2005.

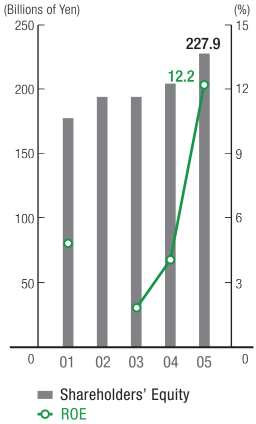
Net Sales



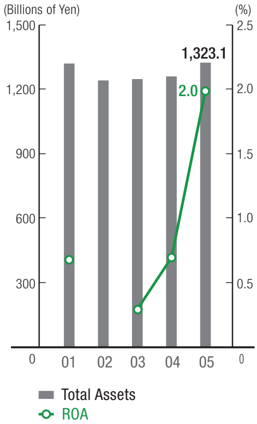
Operating and Net Income

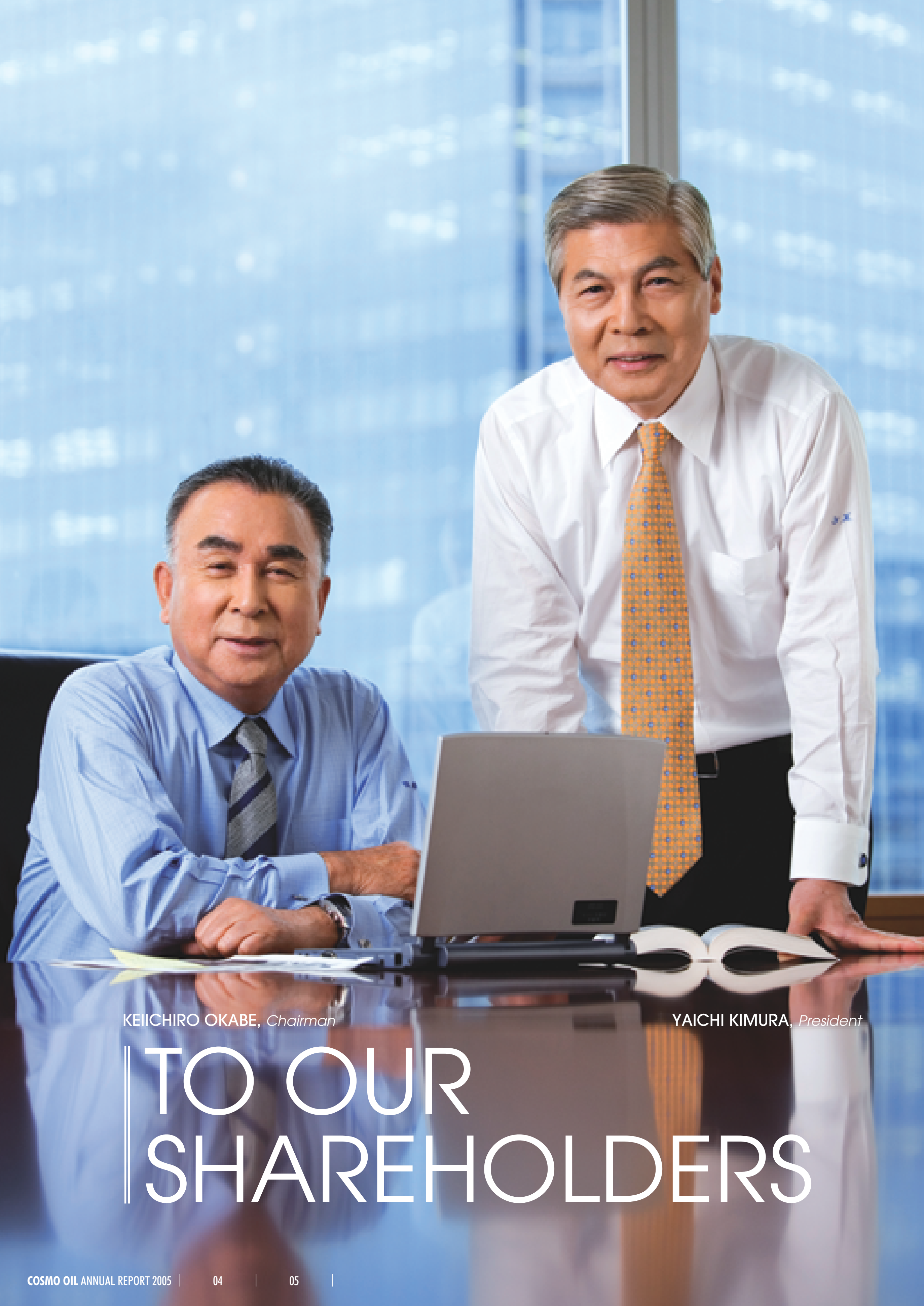


Shareholders' Equity and ROE



Total Assets and ROA





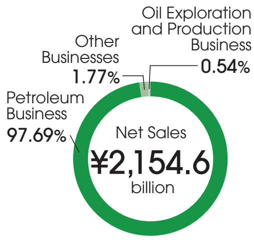
KEIICHIRO OKABE, *Chairman*

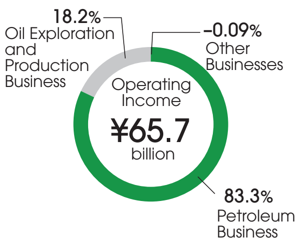
YAICHI KIMURA, *President*

TO OUR SHAREHOLDERS

Segment Information

(Fiscal 2005)





The Cosmo Oil Group Mission

The Cosmo Oil Group's mission is to build a strong, integrated business base in the oil industry, from the development of crude oil, refining and distribution, to the marketing of various petroleum products, while fulfilling the Group's social responsibilities and striving to become a corporate group that can change with the times.

To accomplish this, the Group needs to be able to generate sufficient cash flow from its core business of refining and marketing petroleum products. This cash flow not only serves as a source of funds for investments in the Group's growth strategy including the crude oil development business and petrochemical business, but also serves as a source of funds for reinvestment in core businesses and to strengthen the Group's financial position. Moreover, this cash flow is a source of funds for shareholder and other stakeholder returns. Consequently, our concept of "maximizing shareholder value" is to sustain and significantly enhance the growth track of this business model.

While the pursuit of profit is necessary for a company to grow, the underpinning for these profits are Cosmo Oil's stakeholders. We must therefore consider our duties to society in addition to pursuing profit. The key word in fulfilling corporate responsibility is "integrity". Moreover, Cosmo Oil believes that integrity and transparency of corporate management are two necessary prerequisites for the accomplishment of its mission.

Dubai Crude Oil Price

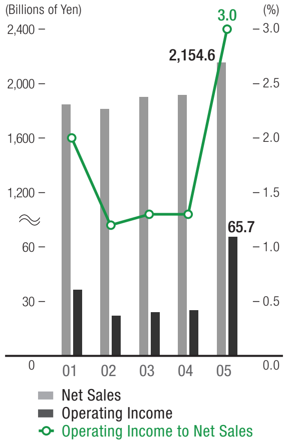
Dramatic Shift in the Operating Environment from "Surplus" to "Shortage"

The dramatic shift in the operating environment in the fiscal year to March 2005 can be described as pivotal in that "supply surplus" reversed and became "supply shortage".

The first change was soaring crude oil prices. Dubai crude oil prices surged from $31/barrel at the beginning of the fiscal year (April 2004) to $47/barrel by the end of the year (March 2005), rising over 50%. Factors supporting this rise included growth in global demand centering on Asia, continued geopolitical risk, declining supply capacity, and future uncertainties regarding the global supply-demand balance. At the January 2005 OPEC meeting in Vienna, Austria, the organization decided to temporarily suspend price bands (reference price ranges). The fact that OPEC was in essence unable to have any influence on the surge in oil prices from the year before last was a significant turning point in the market environment.

The second change was that capacity in Asia as a whole changed from surplus to shortage. Heretofore, the indications had been that Japan had an excess refining capacity problem. However, given the sharp increase in demand centering on India and China, refining capacity in Asia as a whole including Japan moved from surplus to shortage, thereby solving the excess capacity problem. As a result, refinery operating ratios rose driven by a tight supply-demand balance, and market prices moved upward to reflect this, thereby alleviating concerns that the effect of rationalization efforts would be offset by price competition.

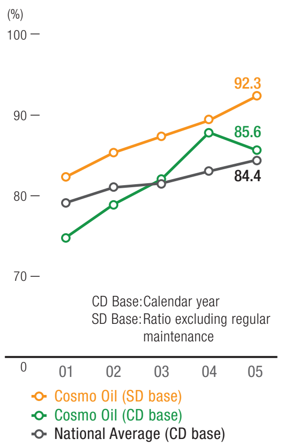
Net Sales, Operating Income, Operating Income and Ratio to Net Sales



All Earnings Targets Met in the Fiscal Year to March 2005

Given the favorable environment, consolidated sales in the fiscal year to March 2005 were ¥2,154.6 billion (up 112.4% year-on-year), operating income was ¥65.7 billion (up 260.0%) and net income reached ¥26.4 billion (up 323.0%), and exceeded the Group's targets as outlined in the mid-term management plan for the fiscal year of ¥56.0 billion and ¥24.0 billion for operating income and net income, respectively. A major contributing factor was the fact that, despite rising costs as evidenced by soaring crude oil prices, end market selling prices properly reflected the rise in crude oil costs thanks to the Group's efforts heretofore to structurally improve marketing and distribution. In addition, a favorable earnings trend in the Group's respective consolidated subsidiaries including upstream oil development subsidiaries contributed. Of special note is the balance sheet improvement seen, where the amount and timing of a reduction in interest-bearing debt exceeded the targets as outlined in the plan. While the original plan called for a reduction of interest-bearing debt to ¥520 billion by March 2006, the Group was able to achieve a reduction to ¥497.8 billion using operating cash flow.

Topper Operating Ratio



Source: Petroleum Association of Japan (National Average)

Progress in Strengthening Supply Competitiveness

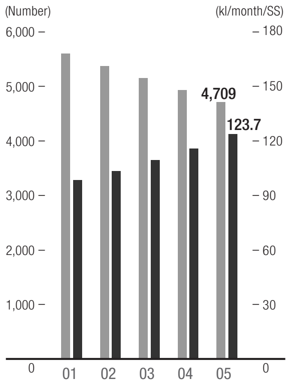
The Group's greatest strength in the oil refining division is that all refineries are located in areas near large consumption regions such as Tokyo, Nagoya, and Osaka. Actual operating ratios at the Group's four refineries are near full capacity. Going forward, the Group intends to leverage these ideal locations with more investments to further enhance the high value-added of these refineries.

Because of the increase in demand in Asian countries, Japan has come to occupy an important position in Asia's petroleum industry. According to the IEA's "World Energy Outlook 2004", energy demand in China and the Asian region (India, Indonesia and others) is expected to grow 3.4% and 2.9% per annum, respectively, from 2002 to 2030, or significantly higher than average growth in global demand of 1.6% per annum. In addition, the share of these two regions is expected to rise from 17.3% of global demand in 2002 to 25.8% by 2030. Thus, there is no doubt that Asia will drive growth in global consumption, led by China and India. In addition, petrochemical products are vital to the improvement of living standards. As consumer demand is not affected by economic fluctuations, we believe that the current concern regarding economic fluctuations in China are unwarranted as these fluctuations do not represent a risk factor over the longer term.

During the fiscal year, the Group established a joint venture called CM Aromatics Co., Ltd. with Maruzen Petrochemical Co., Ltd., which is a Group company. This new venture is expected to become a strategic subsidiary in the Group's Asian strategy with regard to petrochemical product exports.

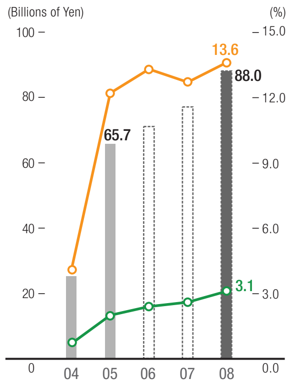
In addition, the Group is emphasizing the Middle East as a strategic core area for high quality oil production in terms of petroleum development and has been involved in petroleum development in the United Arab Emirates for more than 30 years. In the fiscal year to March 2006, the Group will begin crude oil production through Qatar Petroleum Development Co., Ltd. Going forward, the Group plans to continue investing in low-risk projects mainly in core areas, and to continue working for the early recovery of cash flow.

Number of SS and SS Unit Sales Volume



Volume per SS: Gasoline volume sold per SS per month.

Earnings Targets (Fiscal 2006–Fiscal 2008)



Increasingly Superior Marketing Strategy

In Japan, the Group continues to pursue structural reforms in sales. Specifically, the aim is to increase sales volume of highly profitable fuel oil centering on gasoline through service stations (SS) operated by the Group's sales subsidiary and other local affiliates, and the core of this sales strategy is self-service SS.

As of the end of fiscal 2005, there were over 4,100 self-service SS in the industry as a whole, and while the number of self-service SS has shown consistent growth since liberalization in 1998, the share of total SS is nevertheless still between 8%–9%. On the other hand, a Petroleum Association of Japan survey indicates that approximately half of consumers surveyed supported self-service SS, and this is the reason that the Group continues to actively expand its self-service SS network.

Generally speaking, as self-service SS on average sell three times the fuel volume as full-service SS, they are said to be more efficient. However, this does not mean that the Group is dependent on fuel oil margins alone, as the Group is working to strengthen SS competitiveness by developing car care revenues for which there is high customer demand through the expansion of large-scale SS that combine "Auto B-cle" car care facilities and services such as mandatory inspections, repairs, tires, oil replacement and other services.

In addition, the Group's "Cosmo the Card", which enjoys the petroleum industry's largest number of issued cards, is an effective tool in attracting and retaining customers. The card's popularity with consumers is supported by the fact that payment is very convenient. Going forward, the Group will continue working to enhance the value of the Cosmo Oil brand through continuous reforms to its service menu in response to customer needs.

Operating Environment Changes Present the Greatest Business Opportunities: Creation of a New Plan (Fiscal year to March 2008)

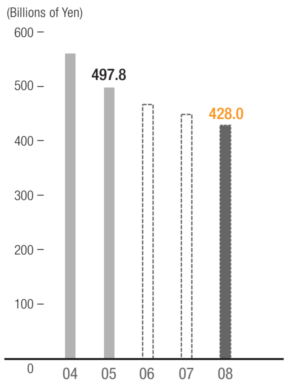
Beginning in fiscal 2004 and through fiscal 2005, the Group was operating under the prior three-year plan, and has already achieved the earnings goals outlined in the plan for the fiscal years to March 2004 and March 2005 and in addition has met the targeted reduction in interest-bearing debt for the year to March 2006 a year ahead of schedule. In addition, the Group was able to address the management issues highlighted in the plan, such as investment in environmental countermeasures and the purchase of shares held by the disbanded Japan National Oil Corporation.

However, because of the dramatic changes that have occurred in the operating environment, we believed a new plan was needed in order to further maximize shareholder value, particularly in light of the change in the demand structure of the industry. This new plan needed to reflect strategies for the next five to ten years, such as the structural changes in demand that are forecast to become more pronounced after 2010.

The fundamental policies of the New Plan are "establishing a stable earnings base" and "shifting to a growth strategy". By strengthening the Group's earnings base and its financial structure, the Group aims to create a "stable earnings base", while it plans to "shift to a growth strategy" through stronger refining profitability and expansion of the Group's business domain in the petroleum development and petrochemical business areas.

As the Group considers the change in the operating environment a major business opportunity, it will not only be using its expanding cash flow to reduce debt, but will also be investing significantly more than current depreciation expenditures. This investment will be strategically focused on the Group's marketing, petroleum development and petrochemicals segments, as well as on improving the value-added of refining capacity. Consequently, from the fiscal year to March 2006 onward, the Group has entered a new stage of "offensive management".

Targeted Interest-Bearing Debt Reduction



Issues That Need to Be Addressed

In order to ensure sustained development, the Group needs to establish a more stable earnings base. While the Group's earnings base has noticeably improved due to the implementation and progress made in the management plan that was launched in April 2003, we believe the following three management issues need to be addressed in order to establish a more solid business base, and we have included countermeasures for these issues in the Group's New Plan that began in April 2005.

1. **Improve the product mix in response to changes in the structure of demand**
   While the domestic excess capacity problem has been resolved, demand is shifting to lighter distillates, and urgent countermeasures are needed to cope with the accelerating decline in industrial-use C heavy fuel oil.
2. **Develop the petrochemical business to accelerate the Group's growth strategy.**
   There is a risk that future shareholder value could vary significantly depending on the strategy adopted for the petrochemical business. The Group's New Plan contains strategic investments for optimal asset allocation aimed at maximizing future cash flow in response to changes in the market environment.
3. **Further strengthen the Group's balance sheet.**
   The Group aims for the continuous reduction of debt going forward in order to create a financial structure that can accommodate large-scale investments. Going forward, the Group will seek more favorable financing conditions as it monitors the financial environment.

The Cosmo Oil Group's CSR Management Philosophy

The two pillars of the Group's management are "stable earnings" and "promotion of CSR-based management". The Group's CSR goal is to actualize the Group's principle of "working for harmony and symbiosis between the earth, people and society, while aiming for sustainable development for a limitless future". Achieving this goal requires strengthened corporate governance and the flexibility to quickly respond to changes in the marketplace.

In order to strengthen the Group's corporate governance and streamline management decision making, the Group has established an Executive Officers' Committee. By clearly separating the roles of the Board of Directors in supervising management and the functioning of the Executive Officers' Committee, the Group believes it can realize its principles and reach its management goals.

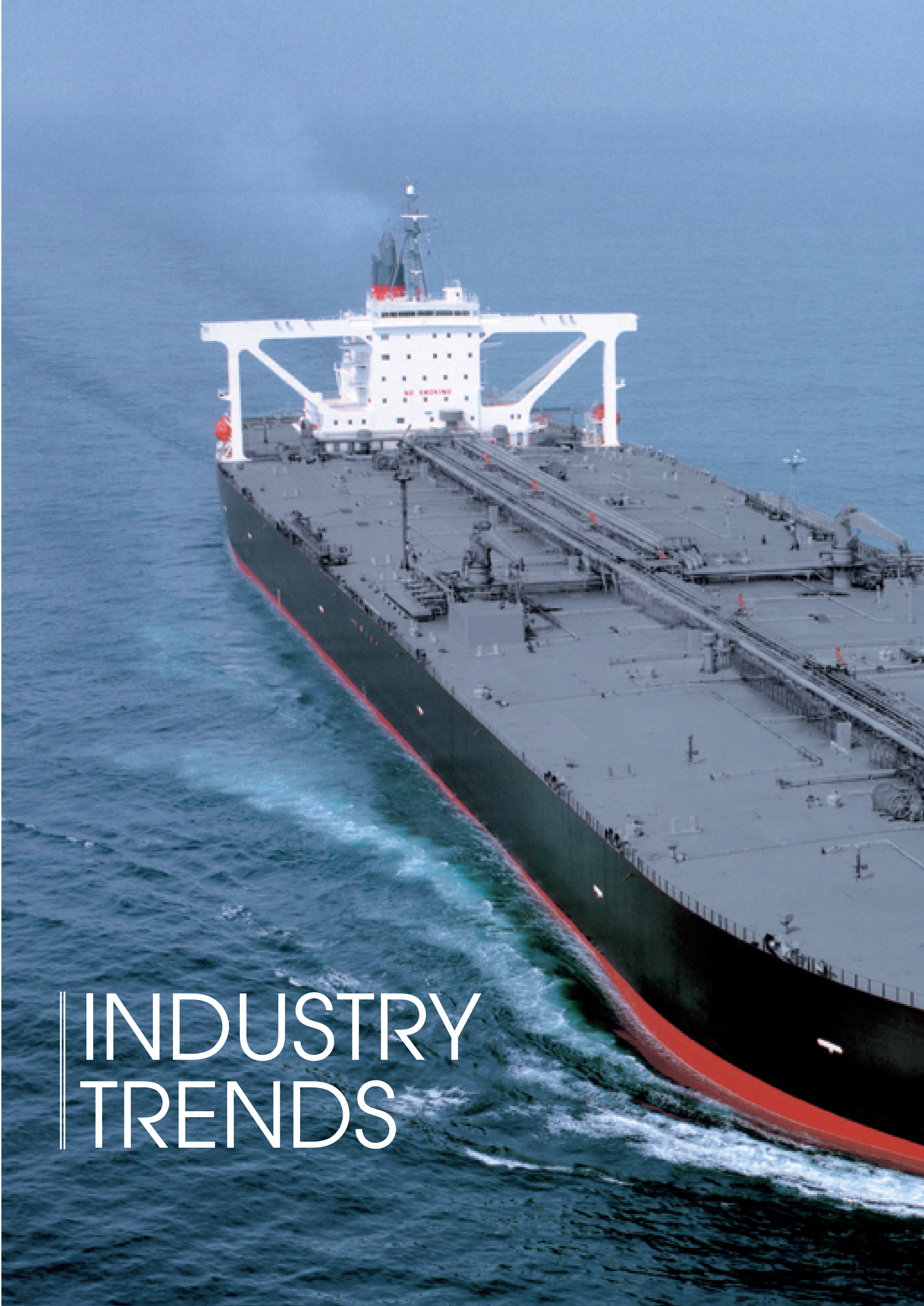
By implementing the New Plan, which aims for the optimal allocation of management resources in response to changes in the market and earnings expansion over the medium and long term, the Group is working to maximize shareholder value.

June 2005

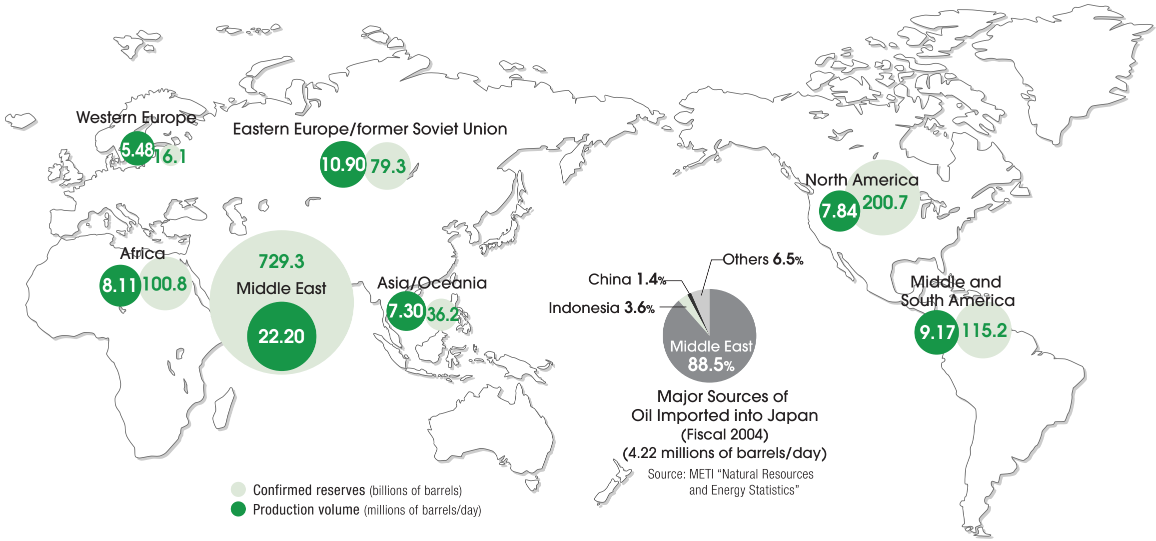
Keiichiro Okabe
Chairman

Yaichi Kimura
President

INDUSTRY TRENDS

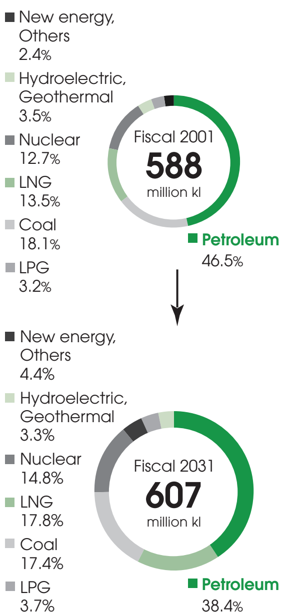


Confirmed Oil Reserves and Production Volume (as of December 31, 2004)



Source: Petroleum Association of Japan

Primary Energy Supply Forecast



Source: Agency for Natural Resources and Energy

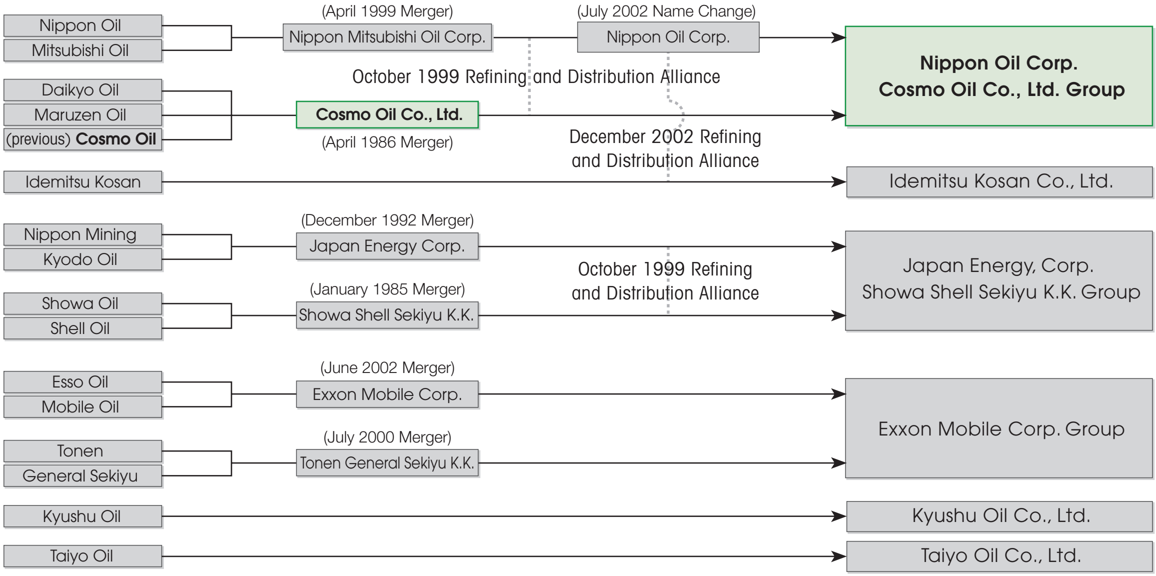
Q1. Will oil continue to be the major source of Japan's primary energy?

A: While the share of oil is gradually declining, it still accounts for approximately 50% of Japan's primary energy sources and in terms of absolute volume is substantially larger than other energy sources. According to a government survey, the share of oil is forecast to decline to 43% by fiscal 2011 and to approximately 38% by fiscal 2031. Consequently, oil is expected to remain the major source of primary energy for Japan. In the "Basic Energy Plan" approved by the Cabinet in 2003, the government's position on oil was that "Oil accounts for approximately 50% of Japan's primary energy and is expected to remain an important source of energy for the foreseeable future from the standpoint of economical efficiency and convenience". From the standpoint of ensuring stable supply, the government also intends to "deepen relationships with oil producing nations as part of an integrated resource strategy and to promote the building of a resilient business base for the petroleum industry".

Q2. What is behind the significant improvement in the business environment for Japan's petroleum industry?

A: In terms of factors behind the improvement, the first is structural reforms in the petroleum industry itself, while the second is the rapid growth in petroleum demand in China and India. Historically, Japan has emphasized "stable supply" in implementing a broad spectrum of oil import, production and sales restrictions, given the importance of oil to the economy. As a result, Japan's oil companies were in many ways protected by restrictions. However, the abolishment of the Law of Import Restriction on Specific Petroleum Products in 1996 which liberalized petroleum product imports, and the liberalization of self-service SS in 1998 led to pricing pressures from cheap imports and the emergence of price competitive self-service SS. The result was that Japan's petroleum industry faced a new age of deteriorating operating conditions given excess capacity in terms of production and price competition in terms of marketing.

Trend in Consolidation of Japan's Petroleum Wholesalers (as of December 2004)



Source: Petroleum Association of Japan

Trend in Petroleum Legislation and Deregulation

July 1962		**Petroleum Industry Law** The basic law for the industry is established in response to crude oil import liberalization
April 1976		**Petroleum Reserves Law** Regulation to ensure the stable supply of oil
January 1986		**Enforcement of "the Law of Import Restriction on Specific Petroleum Products" (Specific Products Law)** Regulation to promote the import of gasoline, kerosene and diesel fuel under specified conditions
March 1989	First Stage of Deregulation	**Abolition of guidance on gasoline production quota (PQ)**
March 1990	First Stage of Deregulation	**Abolition of guidance on brand switching of SS and on construction of SS (scrap & build rule)**
September 1991	First Stage of Deregulation	**Flexible approval of topper construction**
March 1996		**Repeal of the law of import restrictions on specific petroleum products** (liberalization of petroleum product imports)
April 1996	Second Stage of Deregulation	**Amended Petroleum Reserves Law**
December 1997	Second Stage of Deregulation	**Abolition of supply certification for gasoline dealers by branded wholesale distributors**
April 1998	Second Stage of Deregulation	**Lifting of ban on self-service SS with a supervisor**
December 2001		**Repeal of Petroleum Industry Law** (Abolition of supply adjustment restrictions)
January 2002		**Enforcement of New Petroleum Reserve Law**

Source: Petroleum Association of Japan

The new competitive environment required that Japan's petroleum companies moved to reduce personnel costs and slash interest-bearing debt to create slimmer organizations, while at the same time working to rationalize and reduce refining capacity, and reform their marketing structures. As a result, the supply-demand balance improved, and the nationwide topper (refining) capacity utilization rate improved to 84.4% in fiscal 2005 from a bottom of 77.0% in fiscal 2000.

In addition, the increase in price competitive, large sales volume self-service SS accelerated the consolidation of SS operators and the number of SS, and was a significant factor in the substantial structural change seen in the petroleum industry over the last several years.

On the other hand, rising demand in East Asia centering on China and the resulting sharp rise in crude oil prices from the middle of 2003 were the catalysts for a dramatic change in the operating environment for Japan's petroleum industry. Structural change through increasing Asia demand and self improvement of the industry resulted in a tight domestic supply-demand balance, which dramatically changed the process by which crude oil market prices were reflected in selling prices. In effect, the operating environment improved to the point that it became possible to ensure profit margins by transferring crude oil price rises to end selling prices.

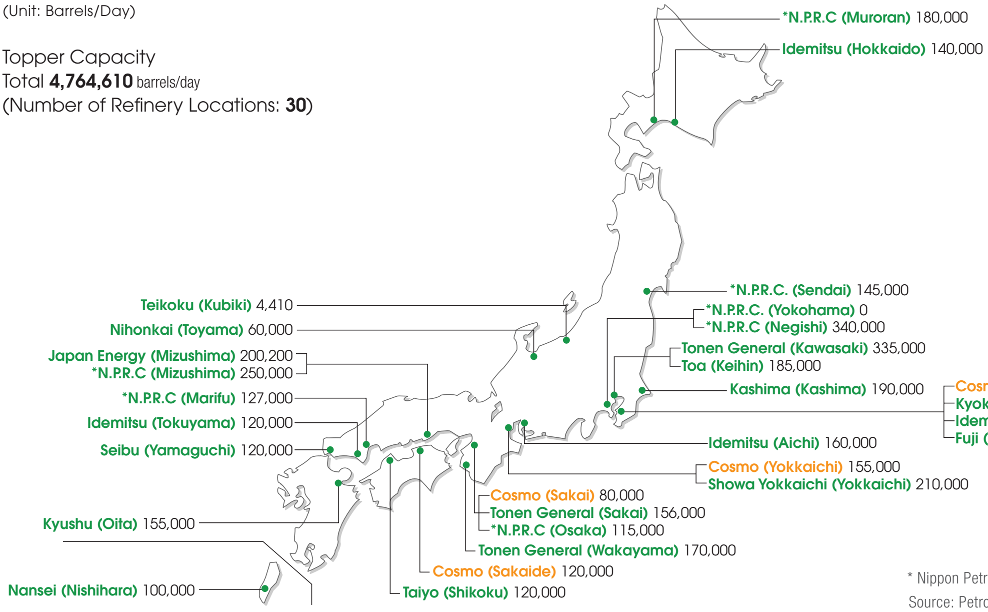
Q3. Please explain how the excess capacity problem was solved.

A: The liberalization wave in Japan's petroleum industry led to unprecedented restructuring at a previously unheard of speed among refiners and primary distributors. As a result, the number of refiners and primary distributors by 2000 had been reduced to essentially four group alliances: the Nippon Oil–Cosmo Oil Group, the Exxon Mobile Group, the Japan Energy–Showa Shell Sekiyu Group, and Idemitsu Kosan. The shift to a four group industry structure led to a rationalization of refineries and storage facilities among each company and each group. As a result, total refining capacity was reduced around 10%, or 600,000 barrels/day, between March 2000 and March 2005.

Refinery Locations and Topper Capacity (as of April 1, 2005)

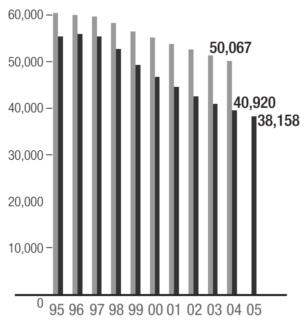
(Unit: Barrels/Day)

Topper Capacity
Total **4,764,610** barrels/day
(Number of Refinery Locations: **30**)



* Nippon Petroleum Refining Co., Ltd.
Source: Petroleum Association of Japan

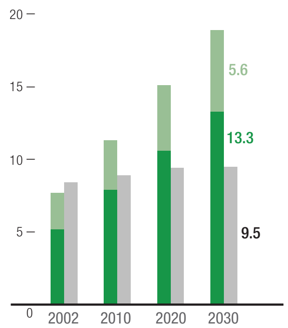
Trend in Number of SS



Number of SS based on Law on the Quality Control of Gasoline and Other Fuels
Number of Fixed Petroleum Distributor Related SS
Source: Monthly Gasoline Stand

Oil Demand in the Asia Pacific Region

(Million Barrels/Day)



OECD Asia Pacific (Japan, South Korea, Australia, New Zealand)
China India
Source: IEA World Energy Outlook 2004

Q4. How did distribution efficiency improvements proceed?

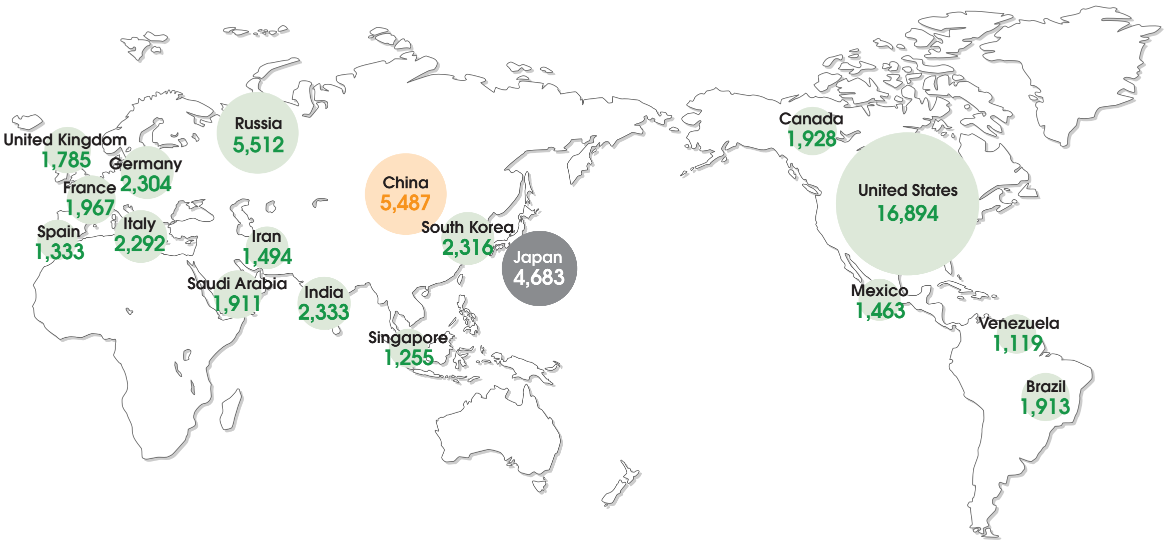
A: The aggregate number of SS has continued to decline from a peak of 60,000 in fiscal 1995, and had shrunk to 50,000 at the end of fiscal 2004. In addition, the number of registered affiliated SS operators has declined from 31,000 in fiscal 1994 to 25,000 at the end of fiscal 2004. In fiscal 2005, the national average volume of gasoline sold per SS was approximately 130 kl/month, which is about half that of average monthly volume sales at SS in Europe and the U.S., and means that further efforts to improve efficiency are required. We believe that the consolidation of inefficient SS will continue as strong consumer needs continue to drive the increase of self-service SS and price competition intensifies further at the distribution level.

Q5. Is the expansion in China demand sustainable long-term?

A: According to the IEA (International Energy Agency), China demand is forecast to soar from 7.9 million barrels/day in 2010 to 13.3 million barrels/day in 2030 and the global supply-demand balance should become even tighter. The biggest factor is the rapid growth in China's domestic economy. GDP in China is growing at over 9% per annum. As a result, electricity consumption rose 13% in 2003 and another 40.3% year-on-year in the first half of calendar 2004.

China is scheduled to host the Peking Olympics in 2008 and the Shanghai Exposition in 2010, and the economy is expected to grow at 4.8% per annum thereafter compared to growth in the global economy of 3%–4%. As a result, it is only natural that demand for oil will increase even further.

Global Refining Capacity (as of December 2003)
(Unit: Thousands of Barrels/Day)

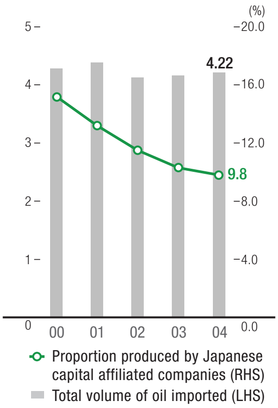


Source: BP Statistical Review of World Energy 2004

Q6. What is the future positioning of Japanese petroleum companies in Asia, where growth potential is relatively high.

A: We believe the major opportunity for Japan's petroleum business going forward is for excess capacity at Japanese refineries to be used to offset the supply shortage in China. As previously mentioned, China's demand for oil is forecast to grow rapidly, while China's domestic refining capacity as of fiscal 2004 was estimated to be only 5.40 million barrels/day, which means China will need to construct large new refineries going forward. However, as the construction of new refineries cannot be completed overnight, it is clear that China faces a long-term shortage of refining capacity. We therefore believe that Japan's petroleum business needs to consider not only domestic demand, but growth in demand for Asia as a whole.

Percentage of Total Crude Oil Imports into Japan Produced by Japanese Capital Affiliated Companies (Million Barrels/Day)



Source: Japan Petroleum Development Association

Q7. What are the current issues facing Japan's petroleum industry?

A: Securing oil, natural gas and other natural resources is growing long-term issue. The establishment of a more efficient energy supply structure is critical in order to meet the future expansion of energy consumption commensurate with economic growth in developing nations, particularly in Asia.

Carbon dioxide emissions which are a byproduct of energy consumption are believed to be a factor in global warming. Consequently, the reduction of greenhouse gases is the major environmental issue facing the energy sector. On the other hand, energy consumption is a necessary prerequisite for economic growth. While Japan's petroleum industry led the world in the early introduction of sulfur-free (less than 10ppm) gasoline and diesel fuel from January 2005, we believe that the petroleum industry needs to resolutely address the question of how to achieve a sustainable balance between stable energy supply, economic growth and the environment.

New Consolidated Mid-Term Management Plan
(Target for Fiscal 2008)

Operating Income	¥ 88.0 billion
Ordinary Income	¥ 82.0 billion
Net Income	¥ 41.2 billion
ROE	13.6 %
Shareholders' Equity	¥ 320.0 billion
Shareholders' Equity Ratio	24.1 %
D/E Ratio	1.3 times

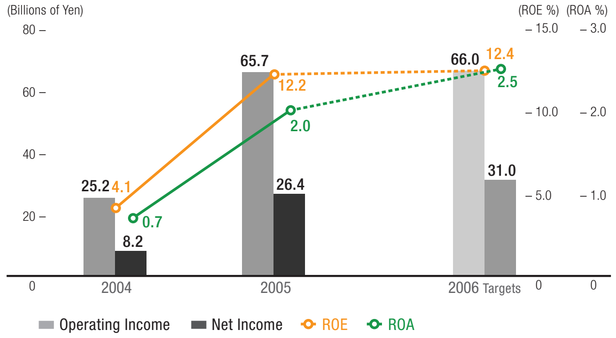
NEW CONSOLIDATED MID-TERM MANAGEMENT PLAN

CONSOLIDATED MID-TERM MANAGEMENT PLAN REVIEW

Consolidated Mid-Term Management Plan—Targets (Fiscal 2006)

Operating Income	¥66.0 billion
Ordinary Income	¥60.0 billion
Net Income	¥31.0 billion
ROE	12.4%
ROA	2.5%
Interest-Bearing Debt	¥520.0 billion
Shareholders' Equity	¥250.0 billion
Shareholders' Equity Ratio	20.3%

Trend in Operating Income, Net Income, ROE, & ROA



■ Goals of the Plan Have Been Consistently Met

The Cosmo Oil Group has created a consolidated three-year mid-term management plan (fiscal 2004–fiscal 2006) aimed at maximizing corporate value and has been working to achieve the goals of this plan. The earnings goals of the plan for the fiscal year to March 2005 were for operating income of ¥56 billion, ordinary income of ¥49 billion and net income of ¥24 billion. On the other hand, actual results achieved for the fiscal year were operating income of ¥65.7 billion, ordinary income of ¥63.2 billion and net income of ¥26.4 billion. Excluding the effect of inventory valuations, operating income was ¥53.1 billion, while ordinary income was ¥50.6 billion. In addition, the financial goal of the plan was to reduce interest-bearing debt to ¥520 billion in the fiscal year to March 2006. However, this goal was significantly surpassed a year early, as interest bearing debt in the fiscal year to March 2005 fell to ¥497.8 billion.

The earnings contribution "rationalization and value-creation" goal that was set in order to achieve the above earnings goals was ¥14 billion in the fiscal year to March 2005, while the Group actually achieved ¥15 billion. In particular, as a result of an emphasis on increasing sales volume in those channels with higher profitability, earnings contribution in the marketing division was 110% of targeted levels for the fiscal year.

With regard to the management issues that needed to be addressed in the plan, investments to comply with new sulfur content restrictions for gasoline and diesel fuel were completed as planned. In addition, the purchase of Japan National Oil Corporation's (JNOC) stock holdings in keeping with the liquidation of JNOC was completed in a manner in which the Group was able to maintain its leadership interests in overseas development projects.

■ Changes in the Operating Environment Related to the Plan

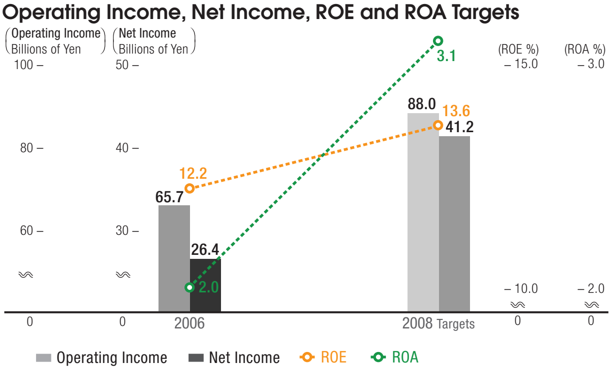
Countries in the Asian region centering on China are recording extremely rapid growth. As a result, energy demand is sharply increasing. While China is an oil producing nation, it is no longer able to meet its energy demand with domestic production alone. Consequently, China has become increasingly dependent on imported oil, with oil imports growing at over 35% year-on-year in 2004. As a result, China's dependency on imported oil has risen to over 40%. Thus Cosmo Oil believes that global oil demand will continue to expand going forward.

The domestic petroleum market is also seeing significant change. Following partial liberalization from 1996 onward, Japan's petroleum market is becoming increasingly free and more international. As a result, Japan's market has become much more susceptible to the international supply-demand balance for oil. It is therefore ever more necessary to make management decisions based on market trends and the international supply-demand balance, as well as the supply-demand balance in Japan. In terms of domestic refining capacity, the industry has been reducing refining capacity since 2001, and total capacity compared to the fiscal year to March 2001 has declined by approximately 600,000 barrels/day, which represents an approximate 10% capacity reduction in the fiscal year to March 2005 compared to the fiscal year to March 2001. As a result, operating ratios have continued to rise, with operating ratios in the fiscal year to March 2005 improving by 5.3 percentage points over levels in the fiscal year to March 2001, despite regularly scheduled maintenance. In addition, operating ratios at secondary facilities such as catalytic cracker facilities have reached plus or minus 90%. Given the increase in refinery capacity operating ratios, the Group believes that the excess capacity problem has effectively been solved.

New Consolidated Mid-Term Management Plan—Targets (Fiscal 2006–Fiscal 2008)

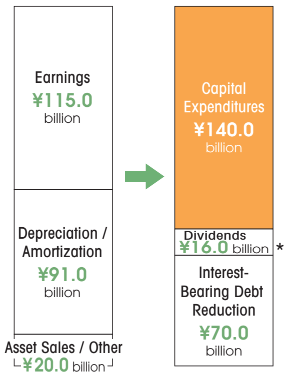
Operating Income	¥88.0 billion
Ordinary Income	¥82.0 billion
Net Income	¥41.2 billion
ROE	13.6%
ROA	3.1%
Interest-Bearing Debt	¥428.0 billion
Shareholders' Equity	¥320.0 billion
Shareholders' Equity Ratio	24.1%

Operating Income, Net Income, ROE and ROA Targets



Fiscal 2006–Fiscal 2008 Cash Flow Allocations

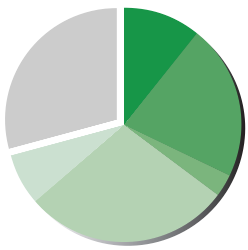
¥226.0 billion



* Assuming ¥8 per share

Fiscal 2006–Fiscal 2008 Planned Capital Expenditures

¥140.0 billion



Marketing (self-service SS)	¥15.0 billion
Oil Exploration and Production	¥30.0 billion
Supply (MX business)	¥4.0 billion
Supply (Refinery value-added improvements)	¥40.0 billion
Others	¥10.0 billion
Maintenance, renewal, etc.	¥41.0 billion

■ Creation of a New Consolidated Mid-Term Management Plan For Further Growth

The Cosmo Oil Group has made consistent progress in achieving the goals outlined in the prior three-year plan which began in the fiscal year to March 2004. However, given the sharp rise in crude oil prices and rapidly rising demand for petroleum products particularly in China, the operating environment for the Group has dramatically changed. On the other hand, the Group needs to continue addressing structural changes in the mix of demand and the remaining supply surpluses at the distribution level. In order to adequately respond to the new management issues that arise as a result of such changes, the Group has created a new three-year rolling consolidated mid-term management plan (fiscal 2006–fiscal 2008).

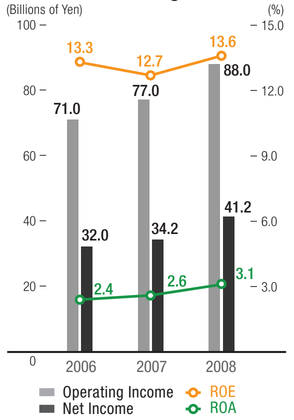
(1) Basic Policies and Management Vision of the New Plan

The two pillars of the New Plan are "establishing a stable earnings base" and "shifting to a growth strategy". The special characteristic of the New Plan is its focus on strategic investments for further growth and on improving the Group's financial position.

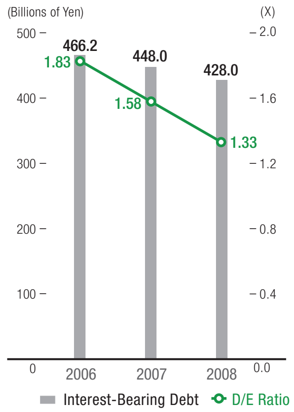
In order to establish a stable earnings base, the first priority is to ensure consistent expansion and a stronger earnings base for the Group's refinery and marketing businesses. Heretofore, the Group concentrated on cost reductions and value creation given the severe operating environment. However, because the business environment is in the midst of significant change and there is decreasing potential for further rationalization, the focus has shifted from rationalization to value-added enhancement. As a result, the Group in its core businesses will be emphasizing value-added in refining, an improved sales structure in the marketing division and improved profitability among its affiliated companies. In addition, in order to cope with the risk of changes in the earnings environment and to provide for large-scale investments, the Group will be working to strengthen its financial position. With regard to a strengthened financial position in particular, the Group views the period covered by the New Plan as the "last three years" it has to establish a sound financial position.

As for the "shifting to a growth strategy", the Group will be investing to upgrade its refineries in order to ensure strong competitiveness and stronger profitability. In particular, as a significant management issue will be optimization of the product mix, the Group has decided to allocate ¥40 billion in strategic investments with a view toward upgrading refinery equipment and expanding the petrochemical business. In addition, the Group aims to expand the scale and business domains for the oil exploration and production (E & P) and petrochemical businesses. The

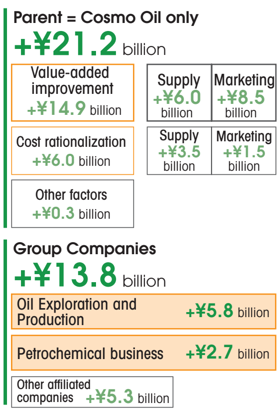
Operating and Net Income, ROE and ROA Targets



Interest-Bearing Debt and D/E Ratio Targets



Total Value of Improvement in Fiscal 2008



Group has also allocated ¥30 billion mainly for capital investments in maintaining and expanding crude oil production, and ¥4 billion for the mixed xylene business.

With these efforts, the Group aims to realize its management philosophy of “harmony and symbiosis, with future value creation” in managing the Company to achieve maximum shareholder value-added. In addition, the Group also aims to perform a key role not only in Japan, but in the Asian petroleum industry as a whole.

(2) Goals of the New Plan

In terms of earnings, the New Plan calls for operating income of ¥88.0 billion, ordinary income ¥82.0 billion and net income of ¥41.2 billion by the fiscal year ending March 2008. The operating income target of ¥88.0 billion represents a ¥35.0 billion improvement in earnings and is significantly higher than the Group’s prior historical high in operating income of ¥70.1 billion.

Financially speaking, the New Plan aims to reduce interest-bearing debt to ¥428.0 billion, and raise shareholders’ equity to ¥320.0 billion by the end of the fiscal year to March 2008 as it works to achieve a significant improvement in the quality of the Group’s balance sheet. This represents a ¥69.8 billion reduction of interest-bearing debt, and given the resulting balance sheet improvement, is expected to result in a debt-to-equity ratio (D/E ratio) of 1.3 times, compared to a D/E ratio of 2.2 times in the fiscal year to March 2005.

In terms of quantitative goals, the Plan calls for shareholders’ equity of 24.1%, an ROE of 13.6%, ROA of 3.1% and an interest-bearing debt ratio of 32.0%. In order to achieve these goals, the Cosmo Oil parent aims to enhance value-added by ¥14.9 billion and generate cost rationalization benefits of ¥6.0 billion. Of the ¥14.9 billion value-added total, ¥6.0 billion will come from supply, while the remaining ¥8.5 billion is to be provided by enhanced value-added in marketing. In cost rationalization, ¥3.5 billion will come from supply, while ¥1.5 billion will come from the marketing division. In addition, the Plan calls for profit improvement of ¥5.8 billion in the E & P business and ¥2.7 billion in the petrochemical business.

The Group aims to invest a total of ¥140 billion over the three years covered by the Plan. These investments will be broken down into 1) strategic investments of ¥15 billion including the establishment of new self-service SS and existing station renewals through Cosmo Oil’s marketing subsidiary, 2) investment of ¥4 billion to strengthen supply competitiveness in mainly the mixed xylene business, and 3) investment of ¥30 billion in E & P, mainly through Abu Dhabi Oil Co., Ltd. and Qatar Petroleum Development Co., Ltd. In addition, ¥40 billion has been allocated for the partial early implementation of planned refinery upgrades. The strategic investment portion of total planned capital investment is 71% and significantly higher than the 52.8% of the prior management plan.

■ Management Strategies by Business Segment

Petroleum Product Marketing Targeted Earnings Improvement ¥10.0 Billion

The Group’s basic policy for the core petroleum product marketing business is to improve marketing outlets and the petroleum product mix and to strengthen marketing channels by placing more emphasis on volume growth in more profitable outlets, petroleum products and marketing channels in order to improve the structure of the marketing business. These initiatives are aimed at generating a ¥10.0 billion improvement in operating income for the segment compared to the fiscal year to March 2005.

In terms of marketing outlets, the Group intends to continue its strategy of strengthening its marketing subsidiaries, while at the same time strengthening partnerships with those local dealer affiliates who through their own effort are winning amidst intense price competition. To accomplish this, we are sharing the

Petroleum Product Marketing Division Strategies

Improvement Value: **¥10.0** billion
Value-Added Improvement: **¥8.5** billion
Rationalization: **¥1.5** billion

Strengthened Targets

Marketing Outlets:	Marketing Subsidiaries and Affiliated Dealers
Product Mix:	Gasoline, Diesel Fuel
Channel:	SS

operating know-how we have accumulated through marketing subsidiaries with local affiliates in order to improve the profitability and structure of their operations. In terms of the petroleum product mix, the Group is targeting expanded sales of gasoline and diesel through the highly profitable SS channel.

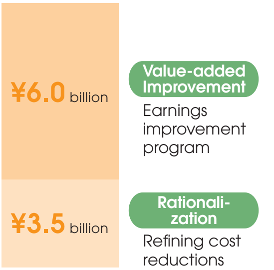
Consequently, the focus of our channel strategy is a stronger SS network, and the particular emphasis of planned capital investment of ¥15 billion over the next three years is the establishment of new self-service SS, given the growing needs of drivers who are service station customers.

On the other hand, we will continue promoting car care services such as compulsory automobile inspections, high quality car washes and sales car accessory products. The aim is to further expand Auto B-cle car care convenience stores, and we will be investing in repair shops and washing equipment to incorporate these in SS. While the SS network has heretofore consisted of by the Group's marketing subsidiary, the New Plan aims to include local affiliates in the network as the Group works to accommodate a shift in SS from full service to self service and to add car care facilities in an effort to improve the quality of the network as a whole.

In addition to continuing to issue the Group's "Cosmo the Card", the Group continues to promote card issuance and is actively positioning this card as a key marketing tool to facilitate the effective start-up of new SS and to maximize the potential of existing SS. With 2.42 million valid members at the end of March 2005, the Group will be working to further expand membership.

Oil Refining Division Strategies

Improvement Value: **¥9.5** billion
Value-Added Improvement: **¥6.0** billion
Rationalization: **¥3.5** billion



Oil Refining Targeted Earnings Improvement ¥9.5 Billion

In oil refining, the Group plans to leverage the results of past rationalization to actively improve value-added by an additional ¥6 billion by the fiscal year to March 2008 through aggressive strategies to enhance value-added. At the refineries, the Group will be seeking optimal and efficient operations that maximize production of high value-added products. Instead of allocating new capital investments, the aim is to increase production of gasoline and other high value-added products. On the other hand, the New Plan calls for ¥3.5 billion from rationalization, which will be generated from reduced refinery maintenance and repairs and energy conservation. The special characteristic of the Group's rationalization efforts is the importance placed on safety in expenditures and personnel allocations, rather than merely seeking temporary cost reductions.

Oil Exploration and Production Company Operating Income Targets

Improvement Value: **¥5.8** billion

Billions of Yen

Company Name	Fiscal 2005 (A)	Fiscal 2008 (P)	Improvement Value
Abu Dhabi Oil Co., Ltd.	12.6	10.2	–2.4
Mubarraz Oil Co., Ltd.	(4.8*)	5.1	5.1
Qatar Petroleum Development Co., Ltd.	—	3.1	3.1
Total	12.6	18.4	5.8

*Mubarraz Oil: Consolidated from fiscal 2005 (not counted in total).

Oil Exploration and Production Business Targeted Earnings Improvement ¥5.8 Billion

The basic policies for the petroleum development business include:

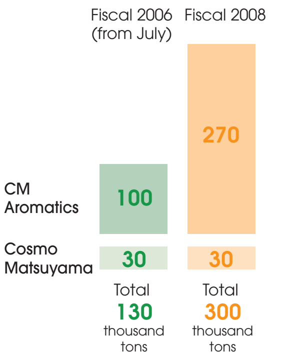
1. Invest in low risk projects.
2. Focus on Abu Dhabi and Qatar, which are currently core regions.
3. Seek the early recovery of cash flow.
4. Emphasize operatorship.

In particular, Qatar Petroleum Development Co., Ltd. (QPD) which will begin full-scale production has already test-produced 820,000 barrels of oil since the oil field was confirmed in 1998. In the fiscal year to March 2006, the company will be constructing a platform and drilling a production well in preparation for what the Group expects will be a maximum of 10,000 barrels/day of production.

Further, the Group was able to purchase shares held by Japan National Oil Corporation which allowed the Group as expected to maintain its leadership in the overseas projects in which it participates. As a result, the Group's ownership of QPD rose from 42.5% to 85.2%. By the same token, the Group's holdings in Abu Dhabi Oil Co., Ltd. (ADOC) have risen from 51.1% to 62.6%, and will result in a greater contribution to the Group's earnings. In addition, as the result of

Planned Mixed Xylene Production Capacity Expansion

Improvement Value: ¥2.7 billion



an application to reorganize Mubarraz Oil Co., Ltd. (MOCO) under the Civil Rehabilitation Law, MOCO became a 100%-owned subsidiary of ADOC, and will contribute even more to the Group's profitability. Under the New Plan, the Group is aiming for an earnings improvement of ¥5.8 billion from these three oil development companies over the next three years.

Petrochemical Business Targeted Earnings Improvement ¥2.7 Billion

Given the strong growth in demand in Asia and China in particular, the Group is focusing on mixed xylene exports as a petroleum-related business and intends to actively develop this business. Mixed xylene is a base material for paraxylene, which is used to produce PET bottles and is used in polyester fiber, and demand for this product is growing very rapidly in Asia as a whole. As a base material for paraxylene, mixed xylene is mainly produced as a derivative base material by oil companies, and the Group had previously been studying its production and sales within the Group. In April 2005, Cosmo Oil established a joint venture with Maruzen Petrochemical Co., Ltd. called CM Aromatics Co., Ltd., which plans to begin producing and selling mixed xylene from July 2005. In addition, total capacity is planned to be expanded to 270,000 tons a year by July 2006, which will give the Group a total production and sales capacity of 300,000 tons per year. The goal for CM Aromatics Co., Ltd. earnings in the New Plan is for operating income of ¥2.7 billion by the end of the fiscal year to March 2008.

Operating Environment Assumptions

Forecast Crude Oil Prices

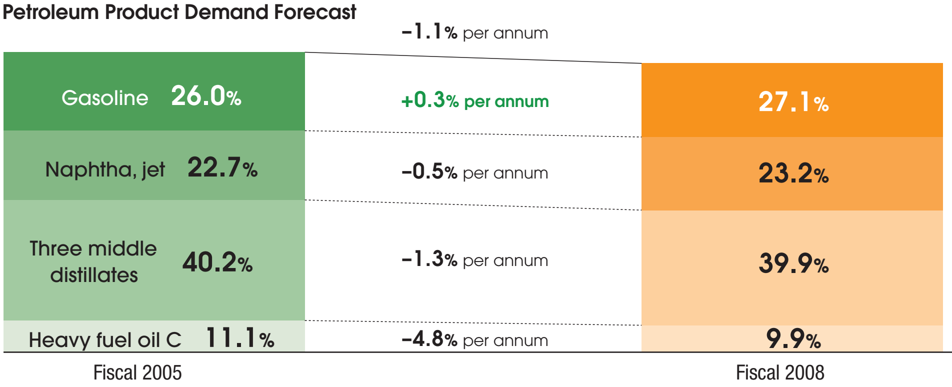
		Dubai Crude ($/B)	Exchange Rate (¥/US$)
Fiscal 2005 (Actual)		36.6	108.0
(Assumed)	Fiscal 2006	38.0	105.0
(Assumed)	Fiscal 2007	32.0	105.0
(Assumed)	Fiscal 2008	32.0	105.0

■ Issues Facing Japan's Petroleum Industry and Cosmo Oil

Historically speaking, the primary role of Japan's petroleum industry was to provide heavy fuel oil for the manufacturing and electric power industries. However, with progress in motorization and increased awareness of the environment, the focus of demand has shifted to gasoline and diesel or so-called light distillates, while demand for electricity generation has shifted to LNG and other clean energy sources. As a result, the issue for the petroleum industry going forward is how to cope with the decline in demand for heavy oil and achieve an optimal product mix.

Another issue is the excessive number of SS and SS operators which is fostering price competition among SS, and this continues to represent risk in the form of declining margins. While excessive price competition at the distribution level continues driven by the rise in self-service SS, we foresee competition intensifying further as the respective petroleum companies implement various policies to win this competition. Further work is therefore needed to improve profitability.

Petroleum Product Demand Forecast



*Three middle distillates: kerosene, diesel fuel, A heavy fuel oil total

*Data source: Agency for Natural Resources and Energy

OPERATIONAL REVIEW

We do more than just put gas in your tank...

In order to fulfill its mission to provide stable energy supply, the Cosmo Oil Group has an integrated business domain that encompasses upstream (oil exploration and production), midstream (petroleum and petrochemical product production) and downstream (petroleum product sales) operations.

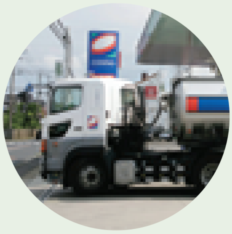
OIL EXPLORATION AND PRODUCTION

The Group's core area of exploration focus is the Middle East, which accounts for approximately 70% of the world's proven oil reserves, and where the Group is both exploring for and producing crude oil for over 30 years.

REFINING

The Group is working to increase production of environmentally friendly, high value-added products and to expand its petrochemical business domain.

DISTRIBUTION



The Group is working to create a more efficient distribution system in order to safely and efficiently provide customers with a broad range of petroleum products.

MARKETING

The Group is proactively expanding its network of self-service SS and its car care business in order to enhance the value-added of its SS.

OIL EXPLORATION AND PRODUCTION

Presently, the Group is operating through Abu Dhabi Oil Co., Ltd., Mubarraz Oil Co., Ltd. and United Petroleum Development Co., Ltd. in Abu Dhabi, UAE (United Arab Emirates). In fiscal 2005, the Group's equity oil production of these three companies was 24,700 barrels/day, which represents approximately 4.7% of the crude oil imported by Cosmo Oil into Japan.

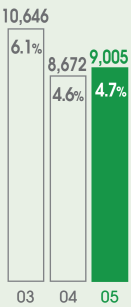
In addition, the Group has decided to begin production (at an initial 6,000 barrels/day and a maximum 10,000 barrels/day) from fiscal 2006 at Qatar, the exploration rights of which were obtained in 1997, and where test production began in 1998. Based on these projects, the Group plans to raise the proportion of equity crude oil production by fiscal 2008 by approximately 1% of total crude oil imported by the Group, and over the longer term raise this further to 10%.

In addition, following the dissolution of Japan National Oil Corporation (JNOC), the Group's holdings in Abu Dhabi Oil have risen to 62.6%, and holdings in Qatar Petroleum Development Co., Ltd. have risen to 85.2%. As the decision by the Group to purchase shares in these companies was based on strict internal investment criteria, the Group believes that it can obtain profitable returns from these investments.

(Note) Japan National Oil Corporation was originally established in 1967 as Japan Petroleum Development Corporation by the Japanese government as a fully-owned public corporation. Following the two oil crises, the corporation was also put in charge of managing Japan's strategic oil reserves in 1978 and renamed Japan National Oil Corporation. The corporation had previously provided funding support for private-sector development of crude oil and natural gas resources, but a decision was made to dissolve the Corporation in 2001 as a result of the Japanese government's plan to consolidate and rationalize government-affiliated corporations. The Company was completely liquidated in March 2005 with the implementation of the National Oil Corporation Law, and the shares held in various ventures were auctioned off.

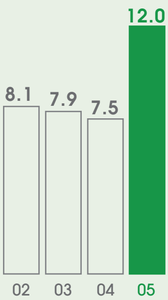
9,005 Thousands of Barrels/Year

Annual Crude Oil Production Volume (Thousands of Barrels) **and Equity Production Ratio** (%)



¥12 Billion

Oil Exploration and Production Segment Operating Income
(Billions of Yen)



REFINING

The Group imports crude oil produced in the Middle East into Japan and refines crude oil into petroleum products at four refineries in Japan: Chiba, Yokkaichi, Sakai and Sakaide. Superheated crude oil is fed into topping plants, where the different boiling points are utilized to produce liquefied petroleum gas (LPG), naphtha (the base for gasoline and petrochemical products), kerosene (jet fuel), diesel oil and heavy oil.

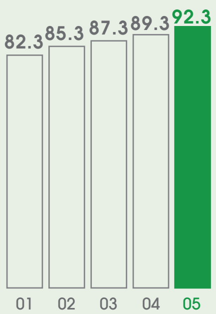
The Group's refineries are located near Tokyo, Osaka and Nagoya, which have large consumer bases, making these locations ideal for integrated production and sales business development. Supported by strong demand in Japan and Asia, the Group's topping plants continue to operate at nearly full capacity.

In addition, the Group has invested in upgrading facilities to meet more stringent gasoline and diesel fuel sulfur content regulations (less than 10ppm) and to expand production capacity of value-added products in order to further enhance profitability. At the same time, the Group is working to reduce maintenance expenses and reduce energy consumption in order to reduce refining costs, in an effort to strengthen the competitiveness of its refineries vis-à-vis not only other refiners in Japan, but relative to other refiners in Asia as well.

92.3%

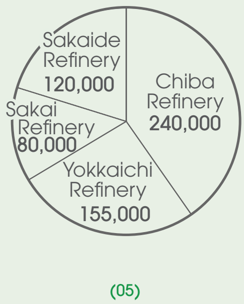
Topper Operating Ratio (SD base, %)

SD Base: Operating ratio excluding impact of regular maintenance



595 Thousands of Barrels/Day

Refinery Topper Capacity (Barrels/Day)



DISTRIBUTION

The Group is also pursuing efficiencies and cost reductions in distribution.

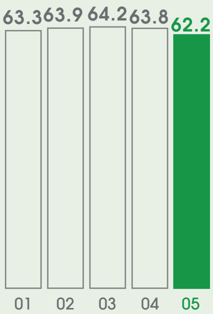
With regard to crude oil transportation, the Group has established Nippon Global Tanker Co., Ltd. as a joint venture with Nippon Oil Corporation in order to rationalize and make long-term tanker chartering and consignment more efficient. Combining the tanker consignments helps to reduce the number of stopovers at crude oil shipment ports and leverages scale merits to reduce charter fees for both companies.

In addition, the Group is currently introducing double hull tankers in order to reduce the risk of oil spills from tanker accidents, and it expects to be fully converted to double hull tankers in fiscal 2006. While the conversion was originally undertaken with regard to environmental concerns, the early conversion to double hull tankers has also provided a substantial benefit in that the Group was largely unaffected by the subsequent sharp rises in global steel prices.

The main means of overland transportation from the refinery or oil storage facility to individual SS is by tanker truck. Here, the Group is shifting to larger capacity tanker trucks in order to save energy by transporting larger average loads per tanker. In addition, the Group is pursuing other rationalization and cost saving initiatives such as the consolidation of oil storage facilities.

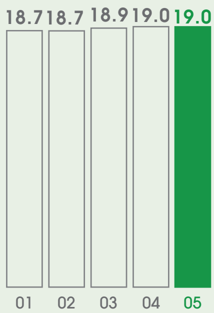
62.2%

Ratio of Conversion to Larger Tanker Trucks (Over 20 kl, %)



19.0kl

Average Tanker Truck Load (kl)



MARKETING

The Group’s marketing strategy is to improve its marketing structure by emphasizing types of oil products, channels and marketing outlets that are the most profitable for the Group. In implementing this strategy, the Group is focusing management resources on self-service SS, its Auto B-cle network, and on “Cosmo the Card” services.

Self-Service SS

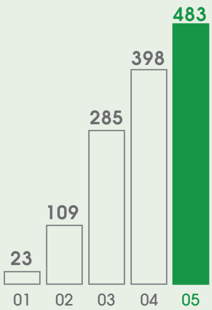
Because of growing customer demand for the service, the Group has been emphasizing self-service SS since this segment was liberalized in 1998. As a result, the number of Cosmo Oil self-service SS in which the Group has an investment or are contracted through local SS chains reached 483 locations at the end of fiscal 2005. This equates to 10% of the Group’s total 4,811 service stations, which is higher than the nationwide distributor self-service average of 9.2%. While it is true that the total number of new self-service SS openings for the industry as a whole is declining, we believe there is further potential for self-service SS conversion, as a Petroleum Association of Japan survey revealed that almost half of consumers prefer self-service SS.

In addition, the average sales volume sold through self-service SS for the Group as a whole is 378 kl/month, which is approximately three times the average amount of gasoline sold through general SS. While there is some risk of margin deterioration because of the excess number of SS, the Group believes that Cosmo Oil has the competitive strength to survive stiff competition in self-service SS and to remain profitable.

Going forward, the Group will be working to further improve investment returns as it actively develops the self-service SS business.

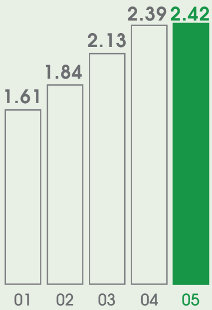
483 SS

Number of Self-Service SS



2.42 Million Holders

Number of Cosmo the Card Members (Million Holders)



Auto B-cle Network

A necessary prerequisite for profitability of the Group is higher value-added and strengthened marketing for the Group's SS. In this regard, the Group created the "Auto B-cle" SS network as a new SS format designed to meet consumer car care needs, in that these SS provide car products, compulsory car inspection, repair and other car care services. Moreover, these SS are more profitable, with Auto B-cle car care services providing an average gross profit of approximately ¥2.4 million/month, versus an average of ¥1.5 million/month for regular SS.

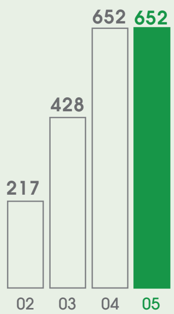
"Cosmo the Card" Credit Cards

In addition, the Group's "Cosmo the Card" credit card is a strategic marketing tool designed to improve customer convenience and make Cosmo Oil "the SS that customers prefer". Cosmo the Card provides easy payment and is making a significant contribution to growth in customers loyal to the Group. As of the end of March 2005, there were 2.42 million active Cosmo the Card members, which represents the largest membership base in Japan's gasoline retail industry. As a result, the Group intends to actively pursue the issue of these cards going forward.

The Group aims to offer much more than just sales of gasoline and kerosene and is building a service format to meet diversifying customer needs. In this regard, the Group believes that a shift from quantity to quality is essential in building the Cosmo Oil brand into a brand that is the preferred brand.

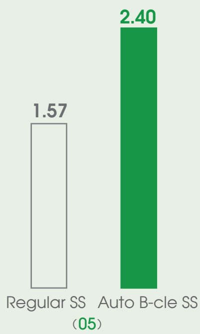
652 SS

Number of Auto B-cle SS



¥2.4 Million

Car Care Gross Profit (Millions of Yen)



RESEARCH AND DEVELOPMENT

The Group is conducting research and development on ways of increasing the efficiency of energy and its business while reducing the burden to the environment.

From January 2005, the Group began shipments of essentially sulfur-free gasoline and diesel fuel. Japan is expected to restrict the sulfur content of gasoline and diesel fuel to less than 10ppm (effectively sulfur-free) from 2008 and 2007 respectively, while the Group has proactively acted to implement these standards earlier than required.

While converting to sulfur-free products usually requires significant new investment in sulfur removal equipment, the Group has been able to minimize the required investment with the application of high performance sulfur removing catalysts using the Group's proprietary technology. The development of a catalyst which is much more highly active than other catalysts available on the market was made possible by the Group's participation in a project to develop new technologies to reduce refined oil contaminants, which the Petroleum Energy Center commissioned in 1999 to develop by the New Energy and Industrial Technology Development Organization.

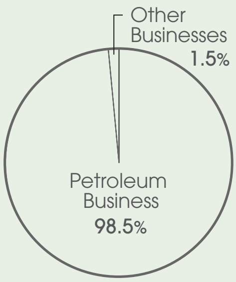
In addition, the Group is emphasizing ALA (5-aminolevulinic acid) as a promising new business area. A new joint venture called Cosmo Seiwa Agriculture Co., Ltd. was established with Seiwa Co., Ltd. in December 2004 to further strengthen marketing of "Pentakeep V", a new high performance liquid fertilizer containing ALA natural amino acid. The Group believes that the ALA business has the potential to become a market equal in size to other major amino acid markets, as potential applications of this product include desert afforestation and veterinary medicine in addition to agricultural applications.

Diesel Fuel Desulfurization Facilities

Desulfurization Catalyst

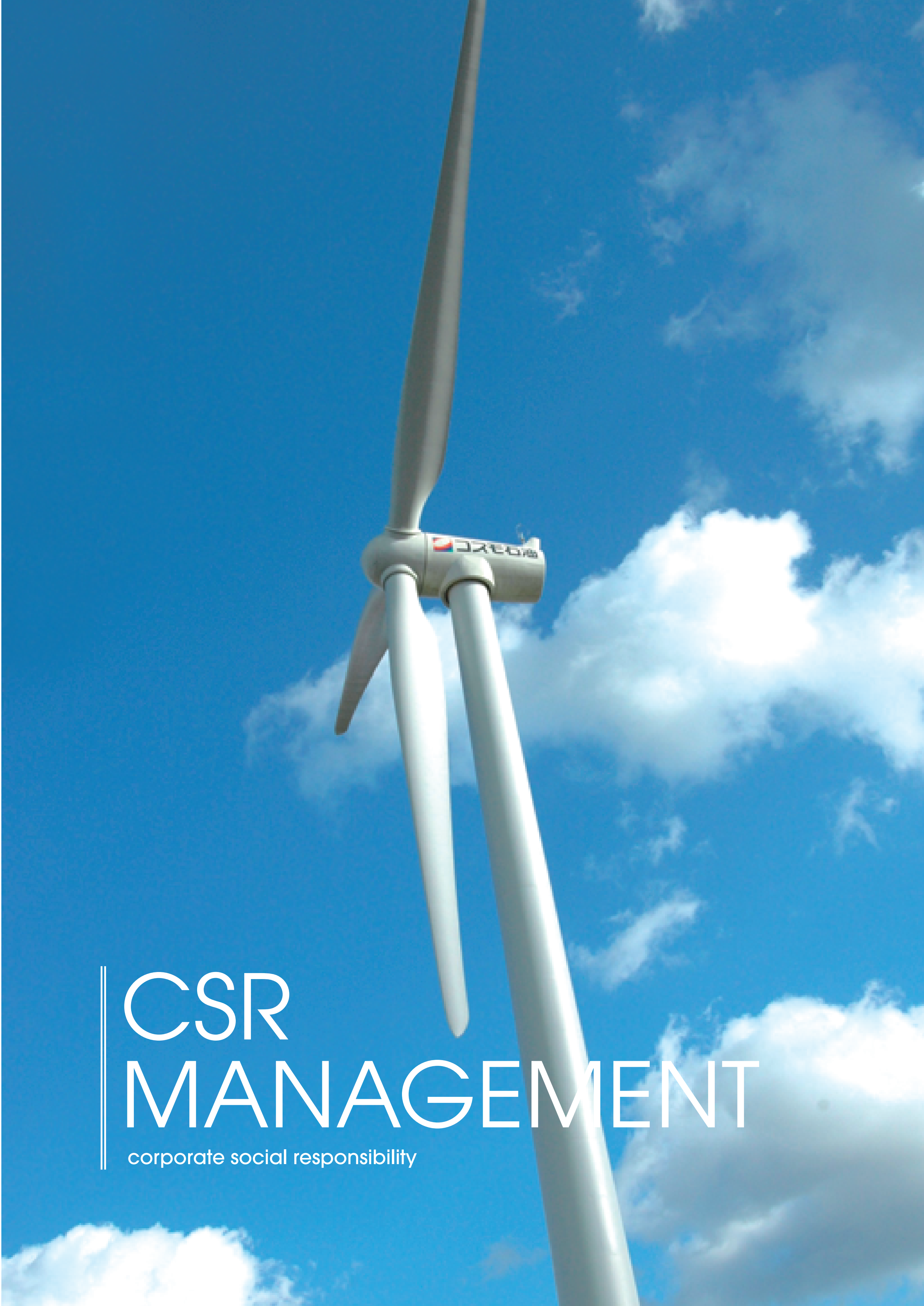
¥3.64 Billion

Breakdown of Fiscal 2004 Research and Development Expenditures



How Sulfur Removal Works

Sulfur removal equipment removes sulfur that is contained in gasoline, diesel and other fuel oils. While high temperature and high pressure are used to remove the sulfur by causing a chemical reaction between sulfur and hydrogen to create hydrogen sulfide, this reaction can be enhanced with the use of a catalyst. The reaction tower of the sulfur removal facilities shown in the picture is filled with a catalyst that works to efficiently remove the sulfur content as the fuel oil passes through the catalyst layer.



CSR MANAGEMENT

corporate social responsibility

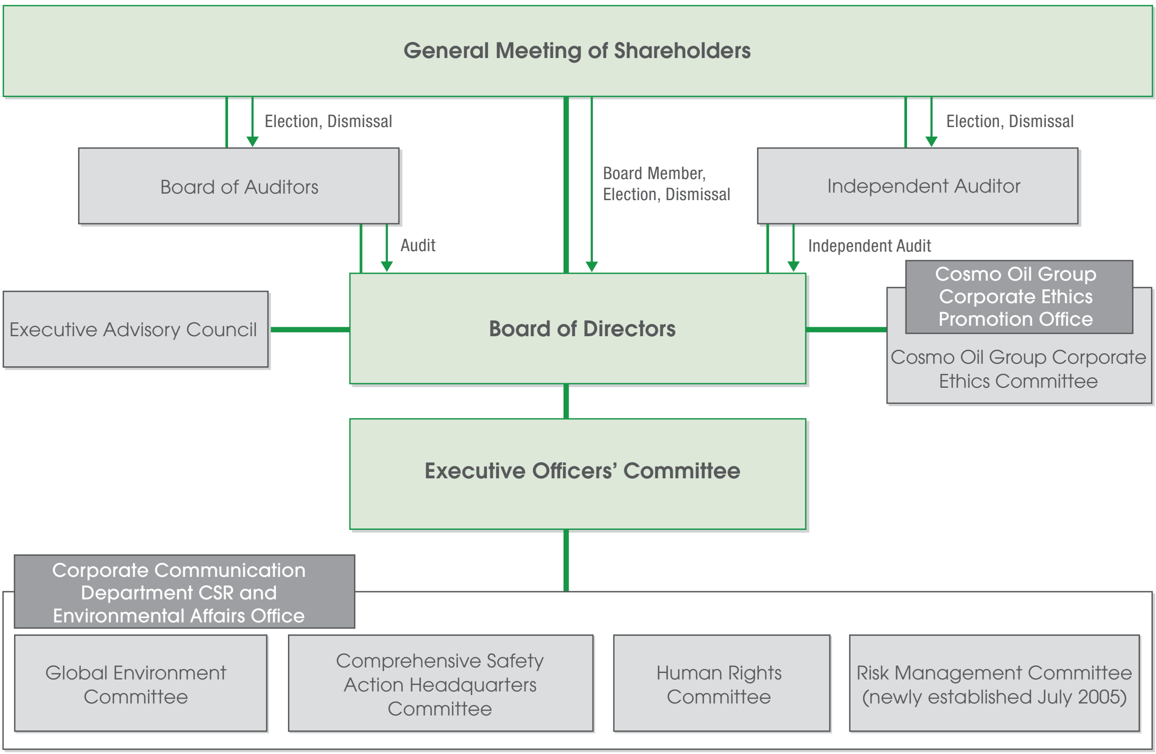
CSR

The Cosmo Oil Group believes that CSR is “a necessary prerequisite for sustainability”. The Group’s philosophy is to strive for harmony and symbiosis between the earth, people and society, with the aim of sustainable growth toward a future of limitless possibilities, and it is convinced that the actualization of this philosophy will lead to enhanced shareholder value.

In order to fulfill its CSR vision, the Group seeks to achieve harmony and symbiosis with society through “management with integrity”, to create future value through “a corporate culture where individual strengths can be realized”, and as a entity engaged in the energy business, to contribute to the creation of a sustainable society through a focus on “the environment”.

“Management with integrity” is the cornerstone of corporate management and cannot be anything less than compliance based on corporate governance. In order to strengthen the Group’s internal corporate governance and ensure transparency, oversight, operational execution and managing director performance evaluation functions were clearly separated into three functions in July 2004. The Board of Directors’ meeting is attended by board members, as well as by the Chairman and Representative Director and auditors, and the Board is tasked with supervising and overseeing management as the highest decision authority in the company, while the Executive Committee which was the organization below the Board of Directors has been disbanded and replaced by the Executive Officers’ Committee that is chaired by the President and Representative Director and is attended by managing directors and above as well as by the auditors. The committee meets to make decisions on important operational issues. Moreover, the Executive Advisory Council was established to evaluate director performance and to consider proposals for new directors as well as auditors. In addition, auditors are members of the Board of Auditors, and through attendance at Board of Directors’ meetings and Executive Officers’ Committee meetings, supervise the executive business operations while coordinating closely with outside accounting audit firms, the internal compliance organization and affiliated company auditors in an effort to provide appropriate and enhanced oversight.

CSR Promotion Organization Chart



The Group's risk management framework provides consistent risk monitoring by identifying business and management risks, evaluating these risks and incorporating countermeasures into the risk management cycle. The Group's internal risk management capabilities are being further strengthened through exercises such as an emergency damage control exercise, which was conducted for all management on February 2005. In addition, the assurance of safe operations at refineries is the bedrock of a sustainable business, and an important part of risk management. The Group is consistently working to improve safety management with the introduction of independent safety management systems at the Group's four refineries.

On the other hand, CSR is also instrumental in creating an attractive corporate entity that meets the needs of all stakeholders and in enhances brand value through the realization of a sustainable society. As a corporation whose business centers on "fossil fuels" which are a significant burden on the environment, the Group is working toward the creation of a sustainable society through global environmental conservation. In addition to conducting business activities and developing products that minimize the environmental burden, the Group is working with its customers through a "Living with Our Planet" project. This project uses financial contributions made by the Group's Cosmo the Card "Eco" members combined with contributions made by Cosmo Oil to support environmental preservation activities. These environmental preservation activities include rain forest preservation projects in Papua New Guinea and the Solomon Islands, and the Silk Road forestation project in China. This project works with NPO and other partners, and is unique in that Cosmo Oil staff visit project sites to monitor progress and participate in the programs, and in that customers also participate through their contributions and participate in activities. As a result, the number of Cosmo the Card "Eco" card members has grown to 77,000 members as of the end of March 2005 since being introduced in April 2002.

In its pursuit of harmony and symbiosis, the Group also conducts various social contribution and Mecenat activities targeted at the "automobile society" and "international contribution" (welfare, children and the arts). In "automobile society" related areas, the Group has established the "Cosmo Exciting Exploration" program, which allows elementary school children orphaned by traffic accidents to experience nature, and 2005 marks the 13th year such programs centering on environmental education have been held.

"Living with our Planet" Project Activities

Rain Forest Preservation Projects (Papua New Guinea, Solomon Islands)
Cosmo Oil has contributed rice mills (center of the picture) needed for the diffusion of recyclable agriculture (rice cultivation) in areas that present no burden to the rain forest.

School Environmental Education Support Project (Japan)
As rice terraces are known for their superior water retention ability and are also known as natural dams, Cosmo Oil is providing rice paddy preservation activities as a school environmental education program as part of its environmental education support activities.

Silk Road Forestation Project (China)
In an effort to prevent the spread of desertification, Cosmo Oil is promoting forestation along the Silk Road in conjunction with residents in the region and local governments.

Cosmo Exciting Exploration

Cosmo Oil is providing children with the opportunity to consider the importance of the environment through various activities during three day and two night camp outings.

(Making squirt guns from bamboo)

BOARD OF DIRECTORS

CHAIRMAN
KEIICHIRO OKABE*

Apr. 1956	Joined Maruzen Oil Co., Ltd.
Mar. 1979	General Manager of Finance Department
Jun. 1982	Director
Apr. 1986	Director of Cosmo Oil Co., Ltd.
Jun. 1987	Managing Director
Jun. 1992	Senior Managing Director of Cosmo Oil Co., Ltd.
Jun. 1993	President and Chief Exective Officer of Cosmo Oil Co., Ltd.
Jun. 1999	Chairman and Chief Executive Officer of Cosmo Oil Co., Ltd.
Jun. 2004	Chairman of Cosmo Oil Co., Ltd.

PRESIDENT
YAICHI KIMURA*

Apr. 1963	Joined Daikyo Oil Co., Ltd.
Jun. 1988	General Manager of Corporate Planning Department
Jun. 1990	General Manager of Finance Department
Jun. 1993	Director
Jun. 1994	Director General Manager of Corporate Planning Department
Jun. 1996	Managing Director
Jun. 1998	Senior Managing Director
Jun. 2001	Executive Vice President
Jun. 2004	President

**Representative Director*

SENIOR MANAGING DIRECTOR

KEIZO MORIKAWA
(Responsible for Sales Control Dept., Retail Marketing Dept., Wholesales Dept. and Industrial Fuel Marketing Dept.)

MANAGING DIRECTORS

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

KENJI HOSAKA
(Responsible for Affiliate Relations Dept., Personnel Dept., International Business Dept. and Crude Oil & Tanker Dept.)

NAOMASA KONDO
(Responsible for Corporate Planning Dept., Corporate Communication Dept. and Project Development Dept.)

KAORU KAWANA
(Responsible for Internal Auditing Office, Information System Planning Dept., General Affairs Dept., Distribution Dept. and Purchasing Center)

SATOSHI MIYAMOTO
(Responsible for Card Business Planning Dept., Accounting Dept. and Finance Dept.)

DIRECTORS

SEIZO SUGA
(General Manager, Yokkaichi Refinery)

MICHIO SHIMIZU
(General Manager, Tokyo Branch Office)

MASATOSHI SAWADA
(General Manager, Refining & Technology Dept.)

HIDEO MATSUSHITA
(General Manager, Secretariat)

TAKASHI YASHIMA
(General Manager, Chiba Refinery)

KANESADA SUFU
(General Manager, Affiliate Relations Dept.)

KENSUKE SUZUKI
(General Manager, Corporate Planning Dept.)

HAJIME MARUKAWA
(General Manager, Sakai Refinery)

KIYOSHI AOYAGI
(General Manager, General Affairs Dept.)

YOSHIYUKI SATO
(General Manager, Industrial Fuel Marketing Dept.)

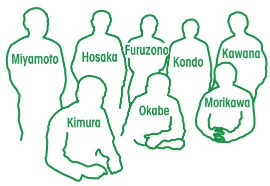
CORPORATE AUDITORS

YOSHIHISA MATSUMIYA
MAKOTO SUZUKI
HIROKAZU ANDO**
YUTAKA SHIMIZU

AUDITOR

HAJIME MIYAMOTO**

***Independent Auditor*



FINANCIAL SECTION
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CONSOLIDATED 11-YEAR SUMMARY

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

	Millions of Yen				
	1995	1996	1997	1998	1999
FOR THE YEAR :					
Net sales	¥ 1,588,003	¥ 1,556,171	¥ 1,729,495	¥ 1,680,478	¥ 1,443,457
Petroleum	N.A.	N.A.	N.A.	N.A.	N.A.
Oil resource development	N.A.	N.A.	N.A.	N.A.	N.A.
Other	N.A.	N.A.	N.A.	N.A.	N.A.
Cost of sales	1,359,869	1,350,743	1,508,186	1,473,349	1,265,443
Selling, general and administrative expenses	177,552	173,359	185,900	179,228	155,154
Operating income	50,582	32,069	35,409	27,901	22,860
Income (loss) before income taxes	35,088	14,473	18,060	14,466	4,351
Net income (loss)	13,065	6,545	8,839	5,340	839
Depreciation and amortization	36,144	37,700	35,738	34,228	21,773
Capital expenditures	51,549	41,613	31,021	34,175	31,325
Research and development costs	N.A.	N.A.	N.A.	N.A.	N.A.
Cash flows from operating activities	47,525	62,798	(25,553)	64,558	17,718
Cash flows from investing activities	(35,697)	(55,764)	13,972	(59,532)	(17,806)
Cash flows from financing activities	(31,633)	(584)	2,065	(5,295)	(14,592)
AT YEAR END :					
Total assets	1,234,897	1,286,000	1,287,172	1,277,022	1,229,285
Total shareholders' equity	183,472	185,836	189,790	190,716	186,496
Interest-bearing debt	640,083	645,297	654,233	652,769	641,562
	Yen				
AMOUNTS PER SHARE :					
Net income (loss) per share	¥ 21.12	¥ 10.36	¥ 13.99	¥ 8.45	¥ 1.33
Shareholders' equity per share	290.43	294.18	300.44	301.91	295.23
Cash dividends	8.00	8.00	8.00	8.00	6.00
RATIOS :					
Return on Assets (ROA) (%)	1.1	0.5	0.7	0.4	0.1
Return on Equity (ROE) (%)	7.6	3.5	4.7	2.8	0.4
Interest-bearing debt ratio (%)	51.8	50.2	50.8	51.1	52.2
Debt-to-Equity ratio(Times)	3.5	3.5	3.4	3.4	3.4

Notes: 1. U.S.dollar amounts in this report have been translated, for convenience only, at the exchange rate of ¥107.39=$1.00, the prevailing rate at March 31,2005.
2. Effective fiscal 2003, the Company adopted a new standard for earnings per share; prior year figures have not been restated.
3. The Company began reporting R&D expenses from fiscal 2000.

			Millions of Yen			Thousands of U.S. Dollars
2000	2001	2002	2003	2004	**2005**	**2005**
¥ 1,584,678	¥ 1,845,842	¥ 1,813,838	¥ 1,902,768	¥ 1,916,278	¥ 2,154,559	$ 20,062,939
N.A.	N.A.	1,746,659	1,830,940	1,862,554	2,104,737	19,599,004
N.A.	N.A.	10,856	9,773	12,950	11,544	107,496
N.A.	N.A.	56,323	62,055	40,774	38,278	356,439
1,427,640	1,664,757	1,659,438	1,754,853	1,758,858	1,956,160	18,215,476
140,373	144,503	132,343	123,748	132,174	132,701	1,235,693
16,665	36,582	22,057	24,167	25,246	65,698	611,770
13,313	22,460	(1,881)	12,966	17,592	47,533	442,620
4,841	8,674	(5,190)	3,426	8,179	26,415	245,973
23,436	24,672	23,492	22,843	23,632	24,927	232,117
22,593	17,108	25,430	24,132	36,573	30,113	280,408
4,567	3,566	3,805	3,867	3,558	3,635	33,849
(42,698)	58,824	76,646	(26,975)	101,827	40,494	377,074
13,538	27,348	(13,944)	(12,811)	(32,709)	(36,577)	(340,600)
31,271	(87,229)	(88,546)	10,127	(7,679)	(70,163)	(653,348)
1,294,843	1,319,960	1,242,171	1,246,730	1,260,092	1,323,149	12,320,970
179,536	177,773	194,303	193,595	204,806	227,897	2,122,144
687,563	610,686	548,653	562,649	559,259	497,804	4,635,478
			Yen			U.S.dollars (Note)
¥ 7.76	¥ 13.81	¥ (8.24)	¥ 5.42	¥ 12.95	¥ 41.73	$0.39
286.75	282.09	308.65	306.67	324.43	360.93	3.36
6.00	6.00	6.00	6.00	6.00	8.00	0.07
0.4	0.7	—	0.3	0.7	2.0	
2.6	4.9	—	1.8	4.1	12.2	
53.1	46.3	44.2	45.1	44.4	37.6	
3.8	3.4	2.8	2.9	2.7	2.2	

Operating Environment

In the fiscal year ended March 31, 2005, Japan's economy remained in a mild recovery trend despite slowing personal consumption, production adjustments in IT-related products, slowing production growth and slowing exports, as corporate profits recovered and employment conditions improved. In addition, a moderate expansion in the world economy continued on increasing capital expenditures and personal consumption in the U.S. and favorable growth in infrastructure related investments and exports in China, which supported strong growth in the Asian economies.

Consequently, demand for crude oil and other primary products continued to increase, and international market prices recorded sharp gains. Dubai crude oil prices which at the beginning of the fiscal year were at the $30/barrel level rose to the $47/barrel level by the end of the period. Prices were supported by continued strong demand in China and the U.S., while a number of factors caused supply uncertainties, such as concerns regarding a decline in the OPEC producing nations' production capacity, continued tension in the Middle East and other geopolitical risk and the impact on supply facilities from the Yukos problem in Russia. While prices temporarily weakened in the interim on a build-up in U.S. petroleum inventories, average crude oil prices for the full fiscal year were $10/barrel higher than the previous fiscal year at the $36/barrel level.

In addition, in the foreign exchange market, the yen-dollar exchange rate began the fiscal year at ¥103 per U.S. dollar, but as the dollar strengthened on a firm U.S. economy, the yen traded in a stable range around ¥110 per U.S. dollar until September. From the onset of October, the direction reversed toward dollar weakness and the yen temporarily strengthened to the ¥101 per U.S. dollar level for the first time in five years, but ended the fiscal year at ¥107 per U.S. dollar as U.S. interest rates began to rise.

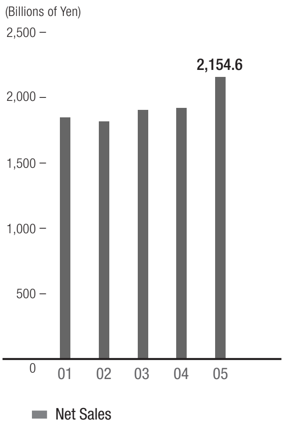
Overview of the Fiscal Year

Net Sales

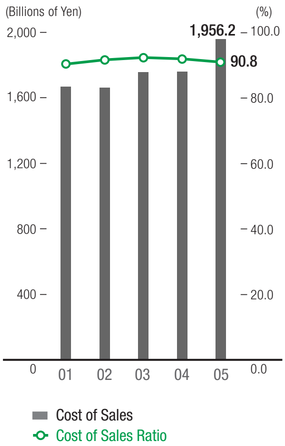
Consolidated net sales for the year ended March 31, 2005 (the fiscal year under review) were ¥2,154.6 billion and ¥238.3 billion or 12.4% higher than the previous fiscal year. In the Petroleum business segment, while heavy fuel oil C sales to the electric power industry declined, unusually hot weather and a recovering economy supported sales of gasoline, diesel fuel and heavy fuel oil A. Rising fuel oil selling prices and overall volume growth supported a ¥242.2 billion increase in sales for the segment to ¥2,105.3 billion.

In the Oil Resource Development business segment, sales rose by ¥5.3 billion to ¥36.9 billion supported by rising crude oil prices.

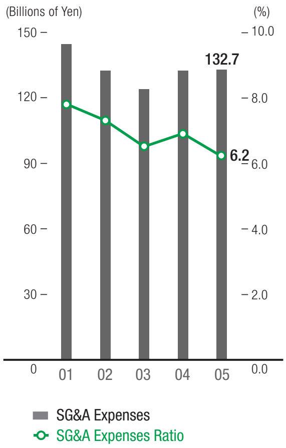
Net Sales



Cost of Sales & Cost of Sales Ratio



SG&A Expenses & SG&A Expenses Ratio



Operating Income

Operating income for the period recorded a marked increase of ¥40.5 billion or 160.2% year-on-year to ¥65.7 billion. While the cost of sales rose 11.2% to ¥1,956.2 billion on higher crude oil prices and sales volume growth, profit margins for gasoline, kerosene and other fuel oils expanded, while the positive effects of value creation and rationalization under the mid-term management plan also contributed to an earnings improvement in major consolidated subsidiaries beginning with the oil resource development business. As a result, gross profit increased 26.0% year-on-year to ¥198.4 billion. In addition, rationalization and more efficient operations held the rise in selling, general and administrative expenses (SG&A) to a 0.4% year-on-year rise of ¥132.7 billion, which also contributed to the marked increase in earnings.

Operating income for the Cosmo Oil parent increased 265.3% year-on-year to ¥47.4 billion. The impact of inventory valuations under the gross average method was ¥12.6 billion, and excluding inventory valuations, adjusted operating income increased 54.7% year-on-year to ¥34.8 billion. Among consolidated subsidiaries, Abu Dhabi Oil Co., Ltd. operating income grew 68.0% year-on-year to ¥12.6 billion, and was also a factor in the substantial increase in Group operating income.

In addition, the operating income ratio to total sales improved 1.7 percentage points to 3.0%.

Other Income (Expenses)

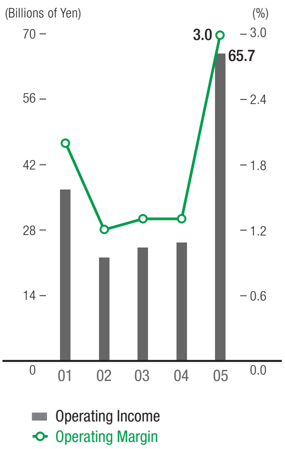
Net other expenses deteriorated by ¥10.5 billion and were ¥18.2 billion, mainly because of the early adoption of impairment accounting and the recording of ¥11.3 billion of impairment loss. This loss was related to impairment recognized for major idle assets such as service stations and oil depots.

In terms of charges other than impairment, there was a ¥3.3 billion provision for bad debt reserves for Abu Dhabi Co., Ltd. liabilities to Mubarraz Oil Co., Ltd. In addition, foreign currency exchange loss was ¥631 million higher for the fiscal year because of a weaker yen rate.

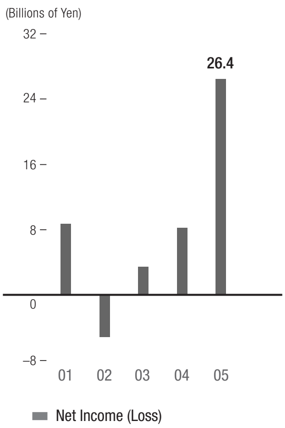
On the other hand, improvement factors included (1) 102.7% year-on-year or a ¥2.8 billion increase in earnings from the equity in earnings of affiliates to ¥5.5 billion, (2) a ¥383 million decline in interest expenses to ¥11.5 billion because of interest-bearing debt reductions, and (3) a ¥653 million increase to ¥1.9 billion in gains on the sale of marketable securities including holdings of Kashima Oil Co., Ltd. stock.

As a result, net other expenses improved by ¥819 million for the fiscal year to ¥6.8 billion, excluding the impact of the impairment loss that was recorded because of the introduction of impairment accounting.

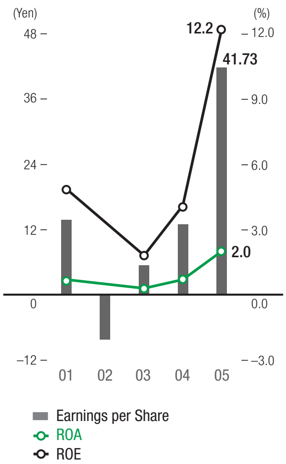
Operating Income & Operating Margin



Net Income (Loss)



Earnings per Share



Net Income for the Period

Income before income taxes and minority interests increased ¥29.9 billion or 170.2% to ¥47.5 billion. Excluding corporate, inhabitant and enterprise taxes of ¥28.1 billion and minority interests of ¥325 million, and including corporate and other tax adjustments of ¥7.3 billion, consolidated net income for the period increased ¥18.2 billion or 223.0% year-on-year to ¥26.4 billion.

In addition, return on total assets (ROA) improved 1.3 percentage points to 2.0%, while return on equity (ROE) improved a substantial 8.1 percentage points to 12.2%.

Segment Information

Petroleum

Petroleum segment net sales increased ¥242.2 billion or 13.0% year-on-year to ¥2,105.3 billion. The major driver of this growth was a fuel oil sales increase of 719,000 kl to 45,302,000 kl and a ¥5,280/kl average selling price improvement to ¥32,110/kl.

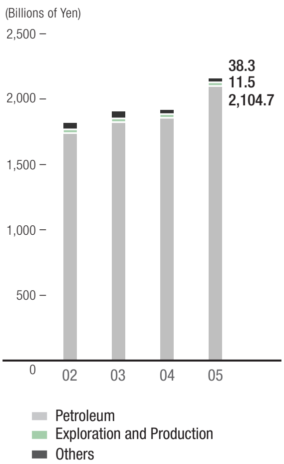
In terms of petroleum demand by product, while improving nuclear plant operating ratios led to a 9.9% year-on-year decline in heavy fuel oil C sales to the electric power industry, unusually hot weather and a recovering economy supported firm growth of gasoline (+2.2%), diesel fuel (+1.5%) and heavy fuel oil A (+2.5%) for the fiscal year. Kerosene sales declined 1.1% year-on-year due to a warm winter that lasted until December 2004. In addition, product markets were buoyed by the sharp increase in crude oil prices, with sharp rises being seen in gasoline and middle distillates, while the market for heavy fuel oil C and other industrial fuels reflected only a portion of the crude oil increase.

Operating income for the segment was boosted by the positive impact of value-added creation from the mid-term management plan which supported margins, and the impact that inventory valuations using the gross average method had on lowering the cost of sales. As a result, operating income for the segment rose by ¥36.8 billion or 204.9% year-on-year to ¥54.7 billion.

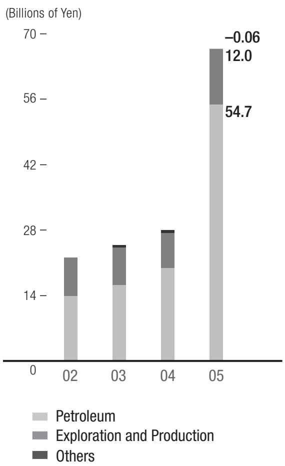
Oil Resource Development

In the Oil Resource Development segment, the Group is working to stabilize and maintain high oil production operating ratios in addition to raising the equity production ratio to maintain and expand crude oil production volume. As a result, net sales for the segment grew ¥5.3 billion or 16.6% year-on-year to ¥36.9 billion, while operating income rose ¥4.5 billion or 59.0% year-on-year to ¥12.0 billion. For Abu Dhabi Oil Co., Ltd., while the yen's exchange rate against the U.S. dollar strengthened

Segment Sales



Segment Operating Income



Crude Oil Price (Dubai)

from ¥117.22 per dollar to ¥108.84 per dollar, the average selling price of crude oil sold by Abu Dhabi oil rose from $28.35 per barrel in the previous fiscal year to $36.61 per barrel.

Moreover, the equity production ratio of the oil imported by Cosmo Oil increased 0.1 percentage point for the fiscal year to 4.7%.

Other

In the Other business segment, which consists of the purchase, sale and rental of real estate properties, construction and leasing of petroleum-related facilities and insurance operations, efforts were made to rationalize and make the business more efficient. While sales were ¥83.0 billion and increased ¥16.3 billion from the previous fiscal year, an operating loss of ¥57 million was recorded, which represented a ¥730 million decline from the previous fiscal year.

Sources of Liquidity and Funds

In the Group's main petroleum business, Cosmo Oil is obligated to provide storage in addition to importing and refining crude oil and marketing petroleum products. Consequently, there are significant lags between the import of crude oil and the recovery of related costs through petroleum product sales proceeds. In addition, exchange rate fluctuations have a significant impact on the cost of imported oil and selling prices for import-dependent oil companies. As a result, the Group engages in forward foreign exchange contracts as a countermeasure for foreign exchange rate risk.

In addition, taking into consideration market interest rate trends, the Group actively worked to reduce interest-bearing debt.

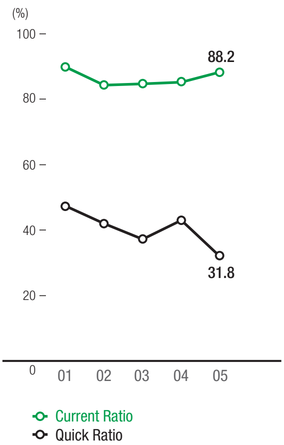
While the Group plans to make strategic capital expenditures under the new mid-term management plan, it will at the same time continue to use a portion of cash flows to reduce interest-bearing debt into order to further strengthen the Group's financial structure. In addition, the Group in the future will seek to procure funds under more favorable conditions as it closely monitors future financial conditions.

Financial Position

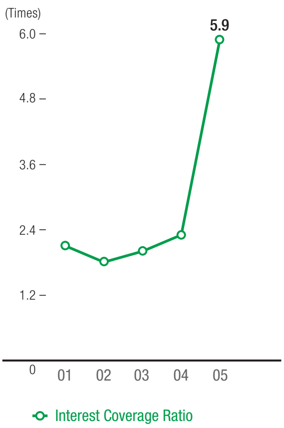
Assets

As of March 31, 2005, total assets were ¥1,323.1 billion, or ¥63.1 billion and 5.0% higher than at the end of the previous year. The main reason for the increase in current assets was higher balances of notes and accounts receivable resulting from the rise in crude oil prices, and a ¥56.2 billion increase in inventories. In addition, while desulfurization facilities were acquired for the production of sulfur-free gasoline, the early introduction of impairment accounting resulted in impairment charges of

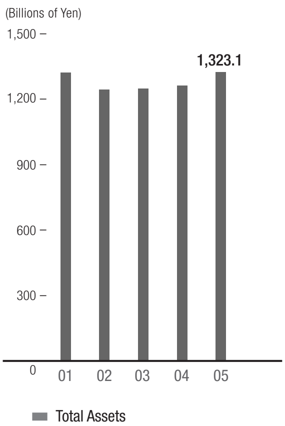
Current Ratio & Quick Ratio



Interest Coverage Ratio



Total Assets



¥12.0 billion for land and other fixed assets. As a result, the balance of tangible fixed assets declined by ¥4.2 billion. In addition, investments in securities increased ¥5.6 billion as the result of the purchase of stock formerly held by Japan National Oil Corporation in companies such as Abu Dhabi Oil Co., Ltd. and Qatar Petroleum Development Co., Ltd.

On the other hand, cash and cash equivalents declined by ¥70.5 billion, reflecting the payment of deferred payments of gasoline excise taxes and petroleum taxes not paid at the end of the previous fiscal year because the end of the fiscal year fell on a weekend and reductions in interest-bearing debt.

Liabilities and Shareholders' Equity

Liabilities at the end of the fiscal year were ¥46.9 billion or 4.6% higher than at the end of the previous fiscal year at ¥1,077.3 billion. As with total assets, this mainly reflected that fact that higher crude oil prices resulted in a higher balance of notes and accounts payable, which increased ¥92.5 billion. On the other hand, efforts to reduce interest-bearing debt during the fiscal year resulted in a ¥61.5 billion or 11.0% decline in interest-bearing debt to ¥497.8 billion. As a result, the Group achieved the targeted debt reduction level under the mid-term management plan a year ahead of schedule. Consequently, the interest-bearing debt ratio improved 6.8 percentage points to 37.6%.

In addition, efforts were made to optimize the balance of long-term and short-term interest-bearing debt. Short-term debt in particular declined by ¥72.7 billion or 29.8% for the fiscal year to ¥171.6 billion.

Shareholders' equity increased ¥23.1 billion or 11.3% from the end of the previous fiscal year to ¥227.9 billion. This largely reflected a ¥17.3 billion increase in retained earnings. Moreover, shareholders' equity ratio improved 0.9 percentage points to 17.2%.

Cash Flows

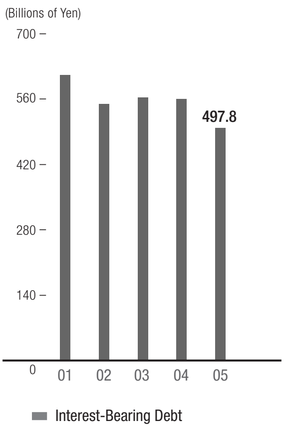
Net cash provided by operating activities was ¥40.5 billion. Excluding the impact of payments for gasoline excise taxes and petroleum taxes deferred from the previous fiscal year, adjusted net cash provided by operating activities was ¥75.5 billion, and ¥8.7 billion or 13% higher than net cash flow in the previous fiscal year. The largest factor in this increase was a ¥29.9 billion or 170.2% increase in ¥47.5 billion in income before income taxes and minority interests.

Net cash used in investing activities was ¥36.6 billion, due to acquisitions of fixed assets and marketable securities.

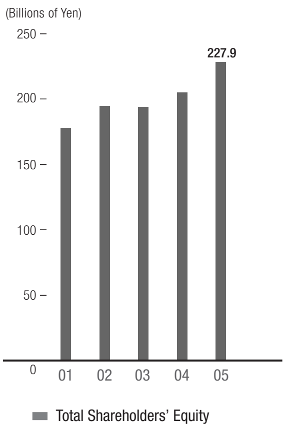
Net cash used in financing activities was ¥70.2 billion, largely due to repayment of interest-bearing debt.

As a result of the above, the balance of cash and cash equivalents at the end of the fiscal year was ¥38.1 billion and ¥66.5 billion lower than at the end of the previous fiscal year.

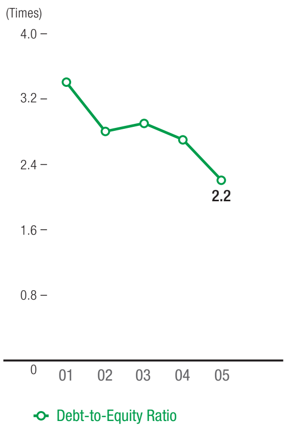
Interest-Bearing Debt



Total Shareholders' Equity



Debt-to-Equity Ratio



Capital Expenditures

Capital expenditures in petroleum and oil resource development were ¥30.1 billion for the fiscal year. In the petroleum business, capital expenditures amounted to ¥25.8 billion and included construction to improve gasoline quality at Cosmo Oil's Chiba, Yokkaichi, Sakai and Sakaide refineries, naphtha hydrogenation desulfurization facilities at the Yokkaichi refinery, as well as investments in marketing facilities such as new SS and SS remodeling. In addition, capital expenditures of ¥4.6 billion in the oil resource development business were mainly for oil well repairs and production water processing equipment for consolidated subsidiary Abu Dhabi Oil Co., Ltd.

Under the new consolidated mid-term management plan, cumulative planned capital expenditures between fiscal 2006 and fiscal 2008 are ¥140 billion, and the Group plans to increase the proportion of strategic investments, mainly in refinery value-added, self-service SS investment and oil development. Moreover, the Group is planning for income of ¥115 billion, depreciation and amortization of ¥91 billion and to liquidate ¥20 billion of idle assets during the same period. Under the new plan, the Group aims to spend ¥140 billion on capital expenditures while maintaining an ¥8 per share dividend and reducing interest-bearing debt by ¥70 billion. Total targeted interest-bearing debt reduction by the end of fiscal 2008 is ¥69.8 billion, to ¥428 billion.

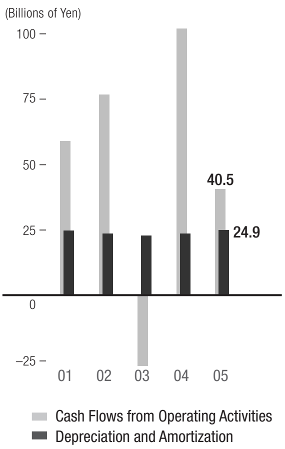
Basic Policy regarding Earnings Appropriation

The Group places particular emphasis on shareholder returns. The Group's basic dividend policy is to maintain stable dividends while maintaining an appropriate balance of fund appropriations to strengthen its financial structure, and further business development as well as business performance. For the fiscal year under review, Cosmo Oil declared a dividend of ¥8 per share (consisting of an interim dividend of ¥3 per share and an end-of-period dividend of ¥5 per share), which represents a ¥2 per share increase from the previous fiscal year.

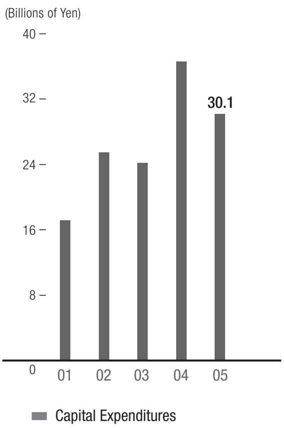
Business and Other Risks

The Group's business performance and financial condition is subject to a number of factors that in the future could have a significant impact. The following is a summary of the major risk factors that the Group incurs in the course of its business development that could have a material impact on business performance and financial condition. The Group proactively discloses all risks it considers important to investors investing in Cosmo Oil stock, including external factors over which the Group has no control. Moreover, the following risks are not all-inclusive of the risks associated with investment in Cosmo Oil's stock.

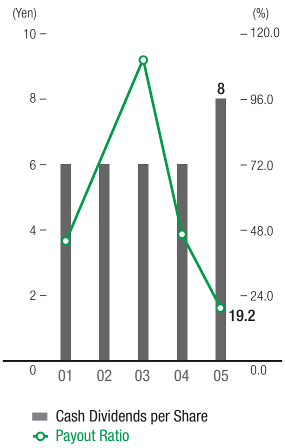
Cash Flows from Operating Activities & Depreciation and Amortization



Capital Expenditures



Cash Dividends per Share & Payout Ratio



In addition, forward-looking statements contained in the following are based on information available to management as of June 29, 2005.

(1) Supply-Demand Trends

Gasoline, kerosene and diesel fuel sales are a major proportion of the Group's total sales and are strongly affected by general trends in personal consumption. In addition, naphtha is strongly affected by demand trends in the petrochemical industry, diesel fuel by the transportation industry, and heavy fuel oil by the electric power and shipping industries. Consequently, demand fluctuations caused by economic conditions can have a material impact on the size of the Group's sales.

(2) Crude Oil Price Fluctuations

Crude oil prices are significantly affected by demand and production trends. In terms of demand trends, the impact of large consuming nations and regions such as the U.S. and the rapidly growing Asian region (particularly China) is particularly noticeable, while production increases and decreases in Middle Eastern oil producing nations have a large impact on production trends. In addition, the outbreak of war or political uncertainties in regions near oil producing nations can have a noticeable impact on crude oil prices.

As crude oil prices account for over half of the cost of sales, crude oil price fluctuations can have a material impact on the Group's costs as declines in crude oil prices because of trends in global demand and other factors could lead to a higher cost burden than prevailing market prices.

(3) Foreign Exchange Rate Fluctuations

The Group imports crude oil from overseas, and payment for this crude oil is usually made in U.S. dollars, which means that fluctuations in foreign exchange markets can cause foreign currency exchange losses or gains. The Group engages in currency hedge transactions in order to minimize the impact of fluctuations in exchange rates. However, exchange rate fluctuations can have a material impact on the Group's costs, as weakness in the yen's exchange rate can cause crude oil procurement costs to rise.

(4) Market Impact

As previously explained, the cost of the Group's major petroleum products is determined by international market prices of crude oil and foreign exchange rates, and as marketing activities are conducted within Japan, selling prices are determined by the domestic market. Consequently, gaps between international markets and the domestic market, or time lags between these markets, can have a material impact on the Group's earnings.

(5) Interest Rate Fluctuations

Interest rate fluctuations can lead to future rises in borrowing costs as borrowing rates rise. Thus, interest rate fluctuations can have a material impact on the Group's borrowing costs.

(6) Asset Value Fluctuations

The value of assets held by the Group such as land and marketable securities is affected by economic conditions, and declines in the value of these assets can result in valuation losses. Consequently, asset value fluctuations can have a material impact on the Group's business performance.

(7) Impact of Natural Disasters and Accidents

As refineries handle large volumes of flammable material, Cosmo Oil takes particular care in implementing various safety measures to prevent accidents and to avoid workplace injuries. This notwithstanding, the occurrence of an earthquake, other natural disasters or unforeseen accidents can result in unavoidable stoppages of operations. In addition, unforeseen accidents in non-refinery operations such as storage tanks, service stations and tanker trucks could have a material impact on the Group's business performance.

(8) Management of Personal Information

Cosmo Oil has taken every precaution in implementing internal rules and regulations and in establishing procedures for the management and handling of customers' personal information. However, unforeseen leaks of personal information could result in a loss of customer trust and tarnish the Group's brand image, and therefore have a material impact on the Group's sales base and business performance.

Outlook

In the Group's new consolidated mid-term management plan announced in May 2005, the Group has set a fiscal 2008 target of ¥88 billion in operating income. (Assumptions include: average Dubai crude oil prices of $38/barrel in fiscal 2006 and $32/barrel in fiscal 2007 and fiscal 2008, and an average yen-dollar exchange rate of ¥105/US$). This target represents a new historical high in operating income, and compares to a previous historical high of ¥70.1 billion (in fiscal 1992).

Fiscal 2006 represents the first year of the new consolidated mid-term management plan, and assuming an average Dubai crude oil price of $38/barrel (FOB) and an average exchange rate of ¥105/US$, the Group is targeting consolidated sales of ¥2,160 billion, operating income of ¥71 billion and net income for the period of ¥32 billion.

CONSOLIDATED BALANCE SHEETS

Cosmo Oil Company, Limited and its Consolidated Subsidiaries March 31

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2004	**2005**	**2005**
ASSETS			
Current assets:			
Cash and deposits (Notes 4 and 15)	¥ 99,451	¥ 28,987	$ 269,923
Marketable securities (Notes 4, 9 and 15)	8,412	5,896	54,903
Notes and accounts receivable, trade	180,687	192,295	1,790,623
Less allowance for doubtful accounts	(590)	(914)	(8,511)
	180,097	191,381	1,782,112
Inventories (Notes 3)	176,889	233,077	2,170,379
Other current assets (Note 12)	95,994	151,872	1,414,209
Total current assets	560,843	611,213	5,691,526
Property, plant and equipment (Notes 2,6 and 15):			
Land	350,170	338,188	3,149,157
Buildings and structures	369,199	437,681	4,075,622
Machinery and equipment	362,057	388,968	3,622,013
Construction in progress	13,771	6,716	62,538
	1,095,197	1,171,553	10,909,330
Less accumulated depreciation	(533,742)	(614,319)	(5,720,448)
Net property, plant and equipment	561,455	557,234	5,188,882
Other assets:			
Investments in securities (Notes 9 and 15)	82,674	88,327	822,488
Long-term loans receivable	9,561	4,578	42,630
Other (Note 12)	48,631	64,870	604,059
Less allowance for doubtful accounts	(3,072)	(3,073)	(28,615)
Total other assets	137,794	154,702	1,440,562
Total	¥ 1,260,092	¥ 1,323,149	$ 12,320,970

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2004	**2005**	**2005**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans and current maturities of long-term debt (Notes 5 and 15)	¥ 244,289	¥ 171,613	$ 1,598,035
Notes and accounts payable, trade (Notes 15)	186,569	279,154	2,599,441
Income, excise and other taxes payable	121,177	116,860	1,088,183
Accrued expenses and other current liabilities (Note 12)	107,367	124,993	1,163,917
Total current liabilities	659,402	692,620	6,449,576
Long-term debt, less current maturities (Note 5)	314,970	326,191	3,037,443
Deferred tax for revaluation reserve for land (Notes 6 and 12)	10,593	13,705	127,619
Retirement and severance benefits (Notes 2 and 11)	4,768	8,234	76,674
Other long-term liabilities (Notes 12 and 15)	40,666	36,557	340,413
Minority interests	24,887	17,945	167,101
Contingencies (Note 8)			
Shareholders' equity:			
Common stock, authorized - 1,700,000,000 shares; issued - 631,705,087 shares	51,887	51,887	483,164
Capital surplus			
Additional paid-in capital	34,092	34,093	317,469
Retained earnings	97,883	115,161	1,072,362
Revaluation reserve for land (Note 6)	15,446	20,076	186,945
Net unrealized gains on securities	6,602	7,862	73,210
Foreign currency translation adjustments	(1,039)	(1,103)	(10,270)
Less treasury stock, at cost	(65)	(79)	(736)
Total shareholders' equity	204,806	227,897	2,122,144
Total	¥ 1,260,092	¥ 1,323,149	$ 12,320,970

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

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

	Millions of Yen			Thousands of U.S.dollars (Note 1)
	2003	2004	**2005**	**2005**
Net sales (Notes 2 and 14)	¥ 1,902,768	¥ 1,916,278	¥ 2,154,559	$ 20,062,939
Cost of sales (Note 2)	1,754,853	1,758,858	1,956,160	18,215,476
Gross profit	147,915	157,420	198,399	1,847,463
Selling, general and administrative expenses (Note 2)	123,748	132,174	132,701	1,235,693
Operating income (Note 14)	24,167	25,246	65,698	611,770
Other income (expenses):				
Interest and dividend income	1,906	1,559	2,333	21,725
Interest expenses (Note 5)	(12,928)	(11,867)	(11,484)	(106,937)
Foreign currency exchange gain (loss), net	426	(18)	(649)	(6,043)
Net loss on sale and disposal of property, plant and equipment	(1,315)	(1,864)	(1,832)	(17,059)
Impairment loss on fixed assets (Notes 2,13 and 14)	—	—	(11,330)	(105,503)
Equity in earnings of affiliates	973	2,717	5,508	51,290
Write-down of marketable securities and investments in securities	(4,587)	(283)	(70)	(652)
Provision for prior year portion of allowance for retirement benefits for directors and corporate auditors (Note 2)	—	—	(460)	(4,283)
Gain on contribution of securities to retirement benefit trust	1,120	—	—	—
Gain on sale of investments in securities	246	1,321	1,974	18,382
Loss on sale of investments in securities	(102)	(69)	(26)	(242)
Bad debt expense for affiliates	—	—	(3,300)	(30,729)
Other, net	3,060	850	1,171	10,901
	(11,201)	(7,654)	(18,165)	(169,150)
Income before income taxes and minority interests	12,966	17,592	47,533	442,620
Income taxes:				
Current	6,981	11,375	28,113	261,784
Deferred (Note 12)	1,139	(2,641)	(7,320)	(68,163)
	8,120	8,734	20,793	193,621
Income before minority interests	4,846	8,858	26,740	248,999
Minority interests	(1,420)	(679)	(325)	(3,026)
Net income	¥ 3,426	¥ 8,179	¥ 26,415	$ 245,973

	Yen			U.S.dollars (Note 1)
Earnings per share:				
Basic	¥ 5.42	¥ 12.95	¥ 41.73	$ 0.39
Diluted	—	12.74	—	—
Cash dividends (Note 16)	6.00	6.00	8.00	0.07

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

Millions of Yen

	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Net unrealized gains(losses) on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2002	631,705	¥ 51,887	¥ 34,092	¥ 95,224	¥ 12,067	¥ 2,060	¥ (508)	¥ (519)
Net income for the year	—	—	—	3,426	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(238)	—
Cash dividends	—	—	—	(3,777)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(12)	—	—	—	—
Increase resulting from increase in consolidated subsidiaries	—	—	—	202	—	—	—	—
Increase resulting from increase in affiliates on equity method	—	—	—	1,696	—	—	—	—
Reversal of revaluation reserve for land (Note 6)	—	—	—	(3,116)	3,116	—	—	—
Changes in effective tax rate	—	—	—	—	345	—	—	—
Increase resulting from mergers	—	—	—	0	—	—	—	—
Decrease due to revaluation of available-for-sale securities	—	—	—	—	—	(2,718)	—	—
Loss on retirement of treasury stock	—	—	—	(75)	—	—	—	—
Sales of treasury stock, net	—	—	—	—	—	—	—	443
Balance at March 31, 2003	631,705	51,887	34,092	93,568	15,528	(658)	(746)	(76)
Net income for the year	—	—	—	8,179	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(293)	—
Cash dividends	—	—	—	(3,792)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(13)	—	—	—	—
Increase resulting from increase in consolidated subsidiaries	—	—	—	73	—	—	—	—
Reversal of revaluation reserve for land (Note 6)	—	—	—	(37)	37	—	—	—
Changes in effective tax rate	—	—	—	—	(235)	—	—	—
Adjustment to revaluation reserve for land	—	—	—	—	116	—	—	—
Increase resulting from mergers	—	—	—	63	—	—	—	—
Decrease resulting from mergers	—	—	—	(152)	—	—	—	—
Increase due to revaluation of available-for-sale securities	—	—	—	—	—	7,260	—	—
Loss on retirement of treasury stock	—	—	—	(6)	—	—	—	—
Sales of treasury stock, net	—	—	—	—	—	—	—	11
Balance at March 31, 2004	631,705	51,887	34,092	97,883	15,446	6,602	(1,039)	(65)
Net income for the year	—	—	—	26,415	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(64)	—
Cash dividends	—	—	—	(3,789)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(5)	—	—	—	—
Decrease resulting from increase in consolidated subsidiaries	—	—	—	(177)	—	—	—	—
Reversal of revaluation reserve for land (Note 6)	—	—	—	(4,637)	4,637	—	—	—
Decrease resulting from mergers	—	—	—	(529)	—	—	—	—
Increase due to revaluation of available-for-sale securities	—	—	—	—	—	1,260	—	—
Effect of change in interests of the Company	—	—	—	—	(7)	—	—	—
Surplus from sale of treasury stock	—	—	1	—	—	—	—	—
Sales of treasury stock, net	—	—	—	—	—	—	—	(14)
Balance at March 31, 2005	631,705	¥ 51,887	¥ 34,093	¥ 115,161	¥ 20,076	¥ 7,862	¥ (1,103)	¥ (79)

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Net unrealized gains(losses) on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2004	$ 483,164	$ 317,460	$ 911,472	$ 143,831	$ 61,477	$ (9,675)	$ (605)
Net income for the year	—	—	245,973	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(595)	—
Cash dividends	—	—	(35,283)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	(47)	—	—	—	—
Decrease resulting from increase in consolidated subsidiaries	—	—	(1,648)	—	—	—	—
Reversal of revaluation reserve for land (Note 6)	—	—	(43,179)	43,179	—	—	—
Decrease resulting from mergers	—	—	(4,926)	—	—	—	—
Increase due to revaluation of available-for-sale securities	—	—	—	—	11,733	—	—
Effect of change in interests of the Company	—	—	—	(65)	—	—	—
Surplus from sale of treasury stock	—	9	—	—	—	—	—
Sales of treasury stock, net	—	—	—	—	—	—	(131)
Balance at March 31, 2005	$ 483,164	$ 317,469	$ 1,072,362	$ 186,945	$ 73,210	$ (10,270)	$ (736)

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

			Millions of Yen	Thousands of U.S.dollars (Note 1)
	2003	2004	**2005**	**2005**
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 12,966	¥ 17,592	¥ 47,533	$ 442,620
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	22,843	23,632	24,927	232,117
Amortization of consolidation goodwill	147	1	(86)	(801)
Impairment loss on fixed assets	—	—	11,330	105,503
Increase (decrease) in allowance for doubtful accounts	(1,841)	233	325	3,026
Interest and dividend income	(1,906)	(1,559)	(2,333)	(21,725)
Interest expense	12,928	11,867	11,484	106,937
Equity in earnings of affiliates	(973)	(2,717)	(5,508)	(51,290)
Net loss on sale or disposal of property, plant and equipment	1,315	2,315	2,481	23,103
Write-down of marketable securities and investments in securities	4,587	283	70	652
Gain on contribution of securities to retirement benefit trust	(1,120)	—	—	—
Transfer of securities to retirement benefit trust	5,218	—	—	—
Decrease (increase) in notes and accounts receivable	(14,568)	28,541	(9,374)	(87,289)
Decrease (increase) in inventories	(5,791)	8,576	(55,233)	(514,322)
Increase (decrease) in notes and accounts payable	23,110	(35,414)	92,504	861,384
Decrease in other allowance reserves	(487)	—	—	—
Decrease (increase) in other current assets	(33,072)	24,781	(50,137)	(466,868)
Increase (decrease) in other current liabilities	(34,774)	36,958	(7,495)	(69,792)
Other, net	2,416	5,988	1,443	13,437
Subtotal	(9,002)	121,077	61,931	576,692
Interest and dividend received	1,194	1,649	2,918	27,172
Interest paid	(12,720)	(11,884)	(11,259)	(104,842)
Income taxes paid	(6,447)	(9,015)	(13,096)	(121,948)
Net cash provided by (used in) operating activities	(26,975)	101,827	40,494	377,074
Cash flows from investing activities:				
Payments for purchases of property, plant and equipment	(19,626)	(27,813)	(26,349)	(245,358)
Proceeds from sale or disposal of property, plant and equipment	11,062	2,069	8,723	81,227
Payments for purchases of marketable securities and investments in securities	(9,113)	(3,840)	(13,959)	(129,984)
Proceeds from sale of marketable securities and investments in securities	6,492	5,545	11,721	109,144
Payments for intangible assets and deferred charges	(3,297)	(8,232)	(2,692)	(25,068)
Decrease (increase) in short-term loans receivable	(373)	(482)	943	8,781
Payments for long-term loans receivable	(573)	(2,193)	(11,207)	(104,358)
Proceeds from long-term loans receivable	1,276	1,690	6,148	57,249
Proceeds from factoring	1,571	498	1,283	11,947
Payments for acquisition of shares of newly consolidated subsidiaries (Note 4)	—	—	(10,573)	(98,454)
Proceeds from acquisition of shares of newly consolidated subsidiary (Note 4)	—	—	427	3,976
Other, net	(230)	49	(1,042)	(9,702)
Net cash used in investing activities	(12,811)	(32,709)	(36,577)	(340,600)
Cash flows from financing activities:				
Increase (decrease) in short-term loans payable	7,887	(16,266)	(47,854)	(445,609)
Proceeds from long-term loans payable	63,264	116,159	77,087	717,823
Repayments for long-term loans payable	(58,918)	(57,200)	(78,439)	(730,413)
Issuance of bonds	19,876	—	—	—
Redemptions of bonds	(16,071)	(46,100)	—	—
Redemptions of convertible bonds	(1,924)	(18)	(16,523)	(153,860)
Cash dividends paid	(3,777)	(3,792)	(3,790)	(35,292)
Cash dividends paid for minority shareholders	—	(513)	(510)	(4,749)
Proceeds from issuing shares for minority shareholders	—	183	19	177
Other, net	(210)	(132)	(153)	(1,425)
Net cash provided by (used in) financing activities	10,127	(7,679)	(70,163)	(653,348)
Effect of exchange rate changes on cash and cash equivalents	(845)	(1,171)	(212)	(1,973)
Net increase (decrease) in cash and cash equivalents	(30,504)	60,268	(66,458)	(618,847)
Cash and cash equivalents at beginning of year	74,000	43,810	104,520	973,275
Cash and cash equivalents from newly consolidated subsidiaries	283	249	—	—
Cash and cash equivalents from mergers	31	193	—	—
Cash and cash equivalents at end of year (Note 4)	¥ 43,810	¥104,520	¥ 38,062	$ 354,428

The accompanying notes are an integral part of these statements.

Note 1. Summary of Accounting Policies

(1) Basis of presenting consolidated financial statements

Cosmo Oil Company, Limited (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan which are different in certain respects as to application and disclosure requirements ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices of International Financial Reporting Standards prevailing in the respective countries of domicile.

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to US$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(2) Reporting entity

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

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

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

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

The numbers of consolidated subsidiaries and affiliates accounted for using the equity method at March 31, 2003, 2004 and 2005 were as follows:

	2003	2004	**2005**
Consolidated subsidiaries	27	31	**31**
Subsidiaries using the equity method	37	38	**34**
Affiliates using the equity method	5	5	**4**

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

(3) Statements of cash flows

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

(4) Conversion of foreign currencies and translation of statements

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

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

(5) Allowance for doubtful accounts

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

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

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

(7) Inventories

Inventories are stated principally at cost determined by the average method.

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

(8) Property, plant and equipment and depreciation

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

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

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

(9) Research and development costs

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

(10) Retirement and severance benefits and pension costs

(a) Retirement and severance benefits and pension costs for employees

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

The net transition obligation, ¥24,222 million ($225,552 thousand), has been recognized in expenses in equal amounts primarily over five years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses in equal amounts over 10 years, which is the average of the estimated remaining service lives, commencing with the following period.

(b) Retirement benefits for directors and corporate auditors

The Company and its domestic consolidated subsidiaries recognize liabilities for retirements benefits for directors and corporate auditors at the amounts required, if all directors and corporate auditors had retired at the balance sheet date (See Note 2(3)).

(11) Allowance for special repair works

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

(12) Finance leases

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

(13) Shareholders' equity

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

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

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code of Japan and is subject to certain covenants regarding convertible bonds (see Note 5).

(14) Derivative transactions and hedge accounting

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

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

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

(15) Income taxes

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

(16) Revenue Recognition

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

Some consolidated subsidiaries recognize construction revenue by using the completed contract method, except for the long-term and large engineering contracts which are more than one year term and of which the contract amount is more than ¥100 million ($931 thousand). Such long-term and large engineering contracts are recognized by the percentage of completion method.

(17) Earnings per share

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

Fully diluted net income per share was not disclosed for the year ended March 31, 2003, as net income per share, assuming all potential shares were converted, was not diluted for the year. Fully diluted net income per share was not disclosed for the year ended March 31,2005, because no potentially dilutive securities have been issued.

(18) Allowance for loss on engineering contracts

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

(19) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2005 presentation.

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

Note 2. Changes in accounting policy

(1) Change of recognition of construction revenue

Effective January 1, 2002, Cosmo Engineering Company Limited changed its revenue recognition from the completed contract method to the percentage of completion method on the long-term and large engineering contracts which are more than one-year in duration and for which the contract amount is more than ¥100 million ($931 thousand). The reason for this change is to match revenue against expenses more accurately, by adopting the percentage of completion method, which is more reasonable in view of the trend of international accounting standards.

As a result of the change, net sales for the year ended March 31, 2003 increased by ¥312 million ($2,905 thousand) and operating income, income before income taxes and minority interests increased by ¥9 million ($84 thousand), respectively.

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

(2) Change of classification of logistics expense and subcontracting work expense

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

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

As a result of the changes, gross profit increased by ¥11,027 million ($102,682 thousand). However, there is no effect on operating income, income before income taxes and minority interests.

The change did not have any effect on segment information.

(3) Change of retirement benefits for directors and corporate auditors

Retirement benefits for directors and corporate auditors are subject to approval at a meeting of shareholders. Previously, retirement benefits for directors and corporate auditors were recorded by the Company as expense when paid. However, for the purpose of more accurately matching them with the period in which they arise and better reflecting the financial position, the amounts required if all directors and corporate auditors had retired at the balance sheet date are fully accrued form the fiscal year ended March 31,2005.

Since the current year portion of the provision for the retirement benefits of ¥146million ($1,360thousands) is represented in selling general and administrative expenses and the cumulative effect on prior years' portion is represented individually in the other income (expense) section, the effect of this change was to decrease operating income by ¥146 million($1,360 thousand) and to decrease income before income taxes and minority interests by ¥606 million ($5,643 thousand). (See Note 11)

The effect of the changes in segment information is not material.

(4) Adoption of impairment on fixed assets

Effective April 1, 2004, the Company and its consolidated subsidiaries adopted a new accounting standard for impairment on fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and “Implementation Guidance for the Accounting Standard for Impairment of fixed Assets” (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003) with early adoption permitted from the year ended March 31, 2004 or thereafter.

The effect of the adoption of this new standard was to decrease income before income taxes and minority interests by ¥11,330million ($105,503thousand) for the year ended March 31, 2005.

The effect of the change in segment information is disclosed in Note 13.

Note 3. Inventories

Inventories at March 31, 2004 and 2005 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Finished products	¥ 49,240	¥ 53,867	$ 501,602
Semi-finished products	31,981	36,580	340,628
Materials-crude oil, auxiliary materials, etc.	42,588	63,649	592,690
Supplies-spare parts, etc.	5,013	4,907	45,693
In-transit crude oil and oil products	45,140	71,483	665,639
Land for sale	1,102	737	6,863
Others	1,825	1,854	17,264
Total	¥ 176,889	¥ 233,077	$ 2,170,379

Note 4. Notes to the consolidated statements of cash flows

(a) Cash and deposits, and cash equivalents

Reconciliation between cash and deposits in the consolidated balance sheets with cash and cash equivalents in the consolidated statements of cash flows at March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Cash and deposits	¥ 99,451	¥ 28,987	$ 269,923
Add:			
Marketable securities	8,412	5,896	54,903
Other current assets	499	5,479	51,019
Less:			
Deposits with maturities exceeding three months	223	197	1,834
Bonds with maturities exceeding three months included in marketable securities above	3,619	2,103	19,583
Cash and cash equivalents	¥ 104,520	¥ 38,062	$ 354,428

(b) Assets and liabilities of the newly consolidated subsidiaries by acquisition of shares at the inception of their consolidation, related acquisition cost and net expenditure for acquisition of shares are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Current assets	¥ —	¥ 8,144	$ 75,836
Fixed assets	—	11,003	102,458
Current liabilities	—	(4,709)	(43,850)
Fixed assets	—	(15,990)	(148,897)
Consolidation differences	—	1,655	15,412
Acquisition cost of shares	—	103	959
Acquisition cost of receivables under Civil Rehabilitation Law	—	15,400	143,403
Cash and cash equivalents of the acquired companies	—	4,930	45,908
Payments for acquisition of shares of newly consolidated subsidiaries	¥ —	¥ (10,573)	$ (98,454)

(c) Assets and liabilities of the newly consolidated subsidiary by acquisition of shares allocated to the Company at the inception of their consolidation, related acquisition cost and proceeds (net) from acquisition of shares are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Current assets	¥ —	¥ 1,149	$ 10,699
Fixed assets	—	13,785	128,364
Current liabilities	—	(1,937)	(18,037)
Fixed assets	—	(11,188)	(104,181)
Minority interests	—	(268)	(2,496)
Consolidation differences	—	367	3,418
Acquisition cost of shares	—	1,908	17,767
Payment during the previous year	—	(1,338)	(12,459)
Cash and cash equivalents of the acquired companies	—	997	9,284
Prceeds for acquisition of shares of newly consolidated subsidiaries	¥ —	¥ 427	$ 3,976

Note 5. Short-Term Loans and Long-Term Debt

The short-term loans from banks of ¥149,731 million and ¥101,923 million ($949,092 thousand), as of March 31, 2004 and 2005, bear interest ranging from 0.20% to 1.99% and from 0.20% to 3.37% per annum, respectively. The banks have basic agreements with the Company and its consolidated subsidiaries to the effect that, with respect to all present or future loans with the banks, the Company and its consolidated subsidiaries shall provide collateral (including sums on deposit with such banks) or guarantees immediately upon request from the banks and that any collateral furnished, pursuant to such agreement or otherwise, will be applicable to all indebtedness to the banks.

Short-term loans and current maturities of long-term debt at March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Short-term loans	¥ 149,731	¥ 101,923	$ 949,092
Current maturities of long-term debt	94,558	69,690	648,943
Total	¥ 244,289	¥ 171,613	$ 1,598,035

Long-term debt at March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Loans from banks, insurance companies and other financial institutions, secured, with interest at 0.5% - 6.7%, due serially through 2015	¥ 335,705	¥ 338,581	$ 3,152,817
1.1% unsecured convertible yen bonds due in 2005	16,523	—	—
3.3% unsecured straight yen bonds due in 2007	9,500	9,500	88,462
3.15% unsecured straight yen bonds due in 2007	7,800	7,800	72,632
3.50% unsecured straight yen bonds due in 2005	4,200	4,200	39,110
3.10% unsecured straight yen bonds due in 2005	4,700	4,700	43,766
3.00% unsecured straight yen bonds due in 2006	4,500	4,500	41,903
3.05% unsecured straight yen bonds due in 2006	3,800	3,800	35,385
2.84% unsecured straight yen bonds due in 2005	2,800	2,800	26,073
1.34% unsecured straight yen bonds due in 2007	10,000	10,000	93,119
1.60% unsecured straight yen bonds due in 2008	10,000	10,000	93,119
	409,528	395,881	3,686,386
Less current maturities	(94,558)	(69,690)	(648,943)
Total	¥ 314,970	¥ 326,191	$ 3,037,443

The aggregate annual maturities of long-term debt at March 31, 2005 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2006	¥ 69,690	$ 648,943
2007	46,328	431,400
2008	80,820	752,584
2009	76,303	710,522
2010 and thereafter	122,740	1,142,937
Total	¥ 395,881	$ 3,686,386

Note 6. Revaluation reserve for land

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

Difference between the fair value and carrying amount of the revalued land as of March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Difference between the fair value and carrying amount of the revalued land	¥ (62,233)	**¥ (75,701)**	**$ (704,917)**

Note 7. Lease transactions

A. Lessee leases

Lease payments of finance leases under which the ownership of the leased assets is not transferred to lessees for the years ended March 31, 2003, 2004 and 2005 were ¥4,391 million, ¥4,080 million and ¥3,958 million ($36,856 thousand), respectively.

Total lease obligation as of March 31, 2004 and 2005 with the interest portion under such leases being ¥10,499 million and ¥9,824 million ($91,480 thousand), including ¥3,716 million and ¥3,609 million ($33,606 thousand) due within one year. Included in the total lease obligation as of March 31, 2005 is an obligation for sub-lease payment of ¥4,792 million ($44,622 thousand).

Equivalent acquisition cost, accumulated depreciation, and net book value of leased properties for the years ended March 31, 2004 and 2005, were as follows:

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

	Millions of yen		
Year ended March 31, 2005	Machinery & equipment	Other	Total
Acquisition cost equivalent	**¥ 3,962**	**¥ 6,656**	**¥ 10,618**
Accumulated depreciation equivalent	**(2,272)**	**(3,314)**	**(5,586)**
Net book value equivalent	**¥ 1,690**	**¥ 3,342**	**¥ 5,032**

Year ended March 31, 2005	Thousands of U.S. dollars (Note 1) Machinery & equipment	Other	Total
Acquisition cost equivalent	$ 36,894	$ 61,979	$ 98,873
Accumulated depreciation equivalent	(21,157)	(30,859)	(52,016)
Net book value equivalent	$ 15,737	$ 31,120	$ 46,857

B. Lessor leases

Rental income from finance leases under which the ownership of the leased assets is not transferred to lessees for the year ended March 31, 2003, 2004 and 2005 was ¥2,502 million, ¥2,285 million and ¥2,163 million ($20,142 thousand).

Total lease obligation as of March 31, 2004 and 2005, inclusive of interest income under such leases, was ¥5,487 million and ¥5,015 million ($46,699 thousand), including ¥2,006 million and ¥1,924 million ($17,916 thousand) due within one year. Included in the total lease obligation as of March 31, 2005 is the obligation for sub-lease payment of ¥5,004 million ($46,597 thousand).

Acquisition cost, accumulated depreciation and net book value of leased properties for the years ended March 31, 2004 and 2005, were as follows:

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

Year ended March 31, 2005	Millions of yen Machinery & equipment	Other	Total
Acquisition cost	¥ 5	¥ 216	¥ 221
Accumulated depreciation	(5)	(205)	(210)
Net book value	¥ 0	¥ 11	¥ 11

Year ended March 31, 2005	Thousands of U.S. dollars (Note 1) Machinery & equipment	Other	Total
Acquisition cost	$ 47	$ 2,011	$ 2,058
Accumulated depreciation	(47)	(1,909)	(1,956)
Net book value	$ 0	$ 102	$ 102

Note 8. Contingencies

(a) Contingent liabilities for notes receivable endorsed with banks with recourse at March 31, 2005 were ¥224 million ($2,086 thousand).

(b) Contingencies for loans guaranteed by the Company and its consolidated subsidiaries, mainly for unconsolidated subsidiaries, affiliates, employees of the Company and its consolidated subsidiaries and its sales agents at March 31, 2005 were ¥9,481 million ($88,286 thousand).

Note 9. Securities

The following tables summarize acquisition costs, book value, and fair value of securities as of March 31, 2004 and 2005:

As of March 31, 2004

(a) Held to maturity debt securities

Bonds with fair value

	Millions of yen		
	Book value	Fair value	Difference
Fair value exceeding book value	¥ 449	¥ 450	¥ 1
Fair value not exceeding book value	¥ —	¥ —	¥—
Total	¥ 449	¥ 450	¥ 1

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

	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity securities	¥ 7,894	¥ 18,123	¥ 10,229
Bonds	4,197	4,254	57
Others	4	4	0
Subtotal	¥ 12,095	¥ 22,381	¥ 10,286
Book value not exceeding acquisition cost:			
Equity securities	¥ 6,099	¥ 5,711	¥ (388)
Bonds	1,303	1,303	(0)
Subtotal	¥ 7,402	¥ 7,014	¥ (388)
Total	¥ 19,497	¥ 29,395	¥ 9,898

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

	Millions of yen		
	Amount of sales	Gain	Loss
	¥ 2,672	¥ 1,321	¥ 69

The following table summarizes book values of securities without fair value

	Millions of yen
	Book value
(a) Held to maturity debt securities	
Non-listed bonds	¥ 69
(b) Shares issued by unconsolidated subsidiaries and affiliates	
Non-listed securities	¥ 27,578
(c) Available-for-sale securities	
Money management fund	¥ 1,766
Free financial fund	3,026
Non-listed securities	17,207
Total	¥ 21,999

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

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

As of March 31, 2005

(a) Held-to-maturity debt securities

Bonds with fair value

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Fair value exceeding book value	¥ —	¥ —	¥ —	$ —	$ —	$ —
Fair value not exceeding book value	1,615	1,579	(36)	15,039	14,703	(335)
Total	¥ 1,615	¥ 1,579	¥ (36)	$ 15,039	$ 14,703	$ (335)

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

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:						
Equity securities	¥ 11,255	¥ 23,392	¥ 12,137	$ 104,805	$ 217,823	$ 113,018
Bonds	2,574	2,591	17	23,969	24,127	158
Others	4	4	0	37	37	0
Sub total	13,833	25,987	12,154	128,811	241,987	113,176
Book value not exceeding acquisition cost:						
Equity securities	5,513	5,089	(424)	51,336	47,388	(3,948)
Bonds	104	104	(0)	969	969	(0)
Sub total	5,617	5,193	(424)	52,305	48,357	(3,948)
Total	¥ 19,450	¥ 31,180	¥ 11,730	$ 181,116	$ 290,344	$ 109,228

(c) Available-for-sale securities sold during year ended March 31, 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Amount of sales	Gain	Loss	Amount of sales	Gain	Loss
	¥ 6,456	¥ 1,974	¥ 26	$ 60,117	$ 18,382	$ 242

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	Book value	Book value
(a) Held to maturity debt securities		
Non-listed bonds	¥ 67	$ 624
(b) Shares issued by unconsolidated subsidiaries and affiliates		
Non-listed securities	¥ 33,380	$ 310,830
(c) Available-for-sale securities		
Money management fund	¥ 1,767	$ 16,454
Free financial fund	2,026	18,866
Non-listed securities	12,593	117,264
Total	¥ 16,386	$ 152,584

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

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds and municipal bonds	¥ 266	¥ 435	¥ 10	¥ —
Corporate bonds	1,917	1,781	—	—
Total	¥ 2,183	¥ 2,216	¥ 10	¥ —

	Thousands of U.S. dollars (Note 1)			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds and municipal bonds	$ 2,477	$ 4,051	$ 93	$ —
Corporate bonds	17,851	16,584	—	—
Total	$ 20,328	$ 20,635	$ 93	$ —

Note 10. Derivative financial instruments and hedging transactions

(1) Nature and objective of derivative transactions

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

A. Hedging instruments and hedged items

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

B. Hedge policy

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

C. Method of evaluating hedge effectiveness

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

(2) Operating policy of derivative transactions

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

(3) Risks related to derivative transactions

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

(4) Management of risks related to derivative transactions

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

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

(5) Other

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

The following tables summarize market value information as of March 31, 2004 and 2005 of derivative transactions for which hedge accounting has not been applied:

(1) Currency related

Millions of yen

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

Year ended March 31, 2005	Contract amounts: Due within 1 year	Due after 1 year	Total	Market value	Unrealized gains
					Millions of yen
Forward exchange contracts					
Buy					
U.S. dollars	¥ 51,385	¥ —	¥ 51,385	¥ 52,398	¥ 1,013
Currency option contracts					
Buy					
Call U.S. dollars	30,069	—	30,069	615	516

Year ended March 31, 2005	Contract amounts: Due within 1 year	Due after 1 year	Total	Market value	Unrealized gains
					Thousands of U.S. dollars (Note 1)
Forward exchange contracts					
Buy					
U.S. dollars	$ 478,490	$ —	$ 478,490	$ 487,923	$ 9,433
Currency option contracts					
Buy					
Call U.S. dollars	279,998	—	279,998	5,727	4,805

(2) Interest rate related

Year ended March 31, 2005	Contract amounts: Due within 1 year	Due after 1 year	Total	Market value	Unrealized gains
					Millions of yen
Swap transaction of interest rate					
Receive-fixed; pay-variable	¥ 19,500	¥ 2,500	¥ 22,000	¥ 165	¥ 153
Receive-variable; pay-fixed	19,500	2,500	22,000	(2,563)	107

Year ended March 31, 2005	Contract amounts: Due within 1 year	Due after 1 year	Total	Market value	Unrealized gains
					Thousands of U.S. dollars (Note 1)
Swap transaction of interest rate					
Receive-fixed; pay-variable	$181,581	$23,280	$204,861	$ 1,536	$1,425
Receive-variable; pay-fixed	181,581	23,280	204,861	(23,886)	996

(3) Commodity related

Year ended March 31, 2005	Contract amount: Due within 1 year	Due after 1 year	Total	Market value	Unrealized losses
	Thousands of ton			Millions of yen	
Swap transaction of petroleum products					
Receive-fixed; pay-variable	—	—	—	¥ —	¥ —
Receive-variable; pay-fixed	21	—	21	(14)	(14)

Year ended March 31, 2005	Thousands of ton			Thousands of U.S. dollars (Note 1)	
	Contract amounts			Market value	Unrealized losses
	Due within 1 year	Due after 1 year	Total		
Swap transaction of petroleum products					
Receive-fixed; pay-variable	—	—	—	$ —	$ —
Receive-variable; pay-fixed	21	—	21	(130)	(130)

Note 11. Retirement and severance benefits

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

The liabilities for retirement and severance benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2005 consist of the following:

March 31, 2004	Millions of yen
Projected benefit obligation	¥ (87,168)
Pension assets	69,340
Unrecognized net transition obligation	4,740
Unrecognized actuarial differences	8,572
Less prepaid pension costs	—
Subtotal	(4,516)
Retirement benefits for directors and corporate auditors	(252)
Liabilities for retirement and severance benefits	¥ (4,768)

March 31, 2005	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligation	¥ (87,093)	$ (810,997)
Pension assets	73,470	684,142
Unrecognized net transition obligation	—	—
Unrecognized actuarial differences	6,322	58,869
Less prepaid pension costs	—	—
Subtotal	(7,301)	(67,986)
Retirement benefits for directors and corporate auditors	(933)	(8,688)
Liabilities for retirement and severance benefits	¥ (8,234)	$ (76,674)

Included in the consolidated statements of income for the years ended March 31, 2003, 2004 and 2005 are retirement and severance benefit expenses comprised of the following:

March 31, 2003	Millions of yen
Service costs	¥ 2,846
Interest cost on projected benefit obligation	2,137
Expected return on plan assets	(2,004)
Amortization of net transition obligation	4,739
Amortization of net actuarial loss	1,718
Retirement and severance benefit expenses	¥ 9,436

March 31, 2004	Millions of yen
Service costs	¥ 3,027
Interest cost on projected benefit obligation	2,081
Expected return on plan assets	(2,029)
Amortization of net transition obligation	4,740
Amortization of net actuarial loss	2,206
Retirement and severance benefit expenses	¥ 10,025

March 31, 2005	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs	¥ 2,541	$ 23,661
Interest cost on projected benefit obligation	2,031	18,912
Expected return on plan assets	(2,309)	(21,501)
Amortization of net transition obligation	4,739	44,129
Amortization of net actuarial loss	1,373	12,785
Retirement and severance benefit expenses	¥ 8,375	$ 77,986

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

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

Note 12. Income taxes

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, 2005:

Year ended March 31, 2005	
Statutory income tax rate	40.44%
Increase (decrease) in taxes resulting from:	
Non-Japanese taxes	9.10
Non-deductible revenue	(1.06)
Non-deductible expenses	1.46
Effect on equity in earnings (losses) of affiliates	(4.69)
Valuation allowance	(1.96)
Other	0.45
Effective income tax rate	43.74%

Significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2004 and 2005 are as follows:

March 31, 2004	Millions of yen
Current deferred tax assets:	
Excess bonuses accrued	¥ 1,788
Accounts receivable	1,914
Other	1,661
Total current deferred tax assets	5,363
Valuation allowance	(210)
Total current deferred tax assets, net of valuation allowance	5,153
Account offset against deferred tax liabilities	(104)
Net current deferred tax assets	¥ 5,049
Current deferred tax liabilities:	
Allowance for doubtful accounts	¥ (85)
Other	(33)
Total current deferred tax liabilities	(118)
Account offset against deferred tax assets	104
Net current deferred tax liabilities	¥ (14)
Non-current deferred tax assets:	
Investments in securities	¥ 4,828
Depreciation	2,262
Unrealized gains	1,205
Allowance for special repair works	1,783
Net operating loss carry forward	449
Costs for retirement and severance benefits	1,251
Golf-club membership	982
Allowance for doubtful accounts	646
Other	1,435
Total non-current deferred tax assets	14,841
Valuation allowance	(952)
Total non-current deferred tax assets, net of valuation allowance	13,889
Account offset against deferred tax liabilities	(10,651)
Net non-current deferred tax assets	¥ 3,238
Non-current deferred tax liabilities:	
Reserve for deferred gains on sales of fixed assets for tax purposes	¥ (13,389)
Non-Japanese taxes	(5,225)
Reserve for losses on overseas investments	(617)
Special depreciation	(168)
Other	(4,978)
Total non-current deferred tax liabilities	(24,377)
Account offset against deferred tax assets	10,651
Net non-current deferred tax liabilities	¥ (13,726)

March 31, 2005	Millions of yen	Thousands of U.S. dollars (Note 1)
Current deferred tax assets:		
Excess bonuses accrued	¥ 2,167	$ 20,179
Accrued business tax	1,636	15,234
Unrealized gains	1,105	10,290
Other	2,250	20,952
Total current deferred tax assets	7,158	66,655
Valuation allowance	(5)	(47)
Total current deferred tax assets, net of valuation allowance	7,153	66,608
Account offset against deferred tax liabilities	(104)	(969)
Net current deferred tax assets	¥ 7,049	$ 65,639
Current deferred tax liabilities:		
Allowance for doubtful accounts	¥ (93)	$ (866)
Other	(13)	(121)
Total current deferred tax liabilities	(106)	(987)
Account offset against deferred tax assets	104	968
Net current deferred tax liabilities	¥ (2)	$ (19)
Non-current deferred tax assets:		
Impairment loss on fixed assets	¥ 6,241	$ 58,115
Investments in securities	4,282	39,873
Depreciation	2,450	22,814
Allowance for special repair works	1,918	17,860
Costs for retirement and severance benefits	2,554	23,782
Unrealized gains	929	8,651
Golf-club membership	968	9,014
Allowance for doubtful accounts	1,102	10,262
Net operating loss carry forward	539	5,019
Other	2,174	20,244
Total non-current deferred tax assets	23,157	215,634
Valuation allowance	(1,050)	(9,777)
Total non-current deferred tax assets, net of valuation allowance	22,107	205,857
Account offset against deferred tax liabilities	(17,220)	(160,350)
Net non-current deferred tax assets	¥ 4,887	$ 45,507
Non-current deferred tax liabilities:		
Reserve for deferred gains on sales of fixed assets for tax purposes	¥ (12,378)	$ (115,262)
Non-Japanese taxes	(8,155)	(75,938)
Net unrealized gains on securities	(4,690)	(43,673)
Other	(1,876)	(17,469)
Total non-current deferred tax liabilities	(27,099)	(252,342)
Account offset against deferred tax assets	17,220	160,350
Net non-current deferred tax liabilities	¥ (9,879)	$ 91,992

In addition, deferred tax liability related to land revaluation of ¥10,593 million and ¥13,705million ($127,619 thousand) was included in the consolidated balance sheets for the years ended March 31, 2004 and 2005, respectively, other than the above mentioned items.

Note 13. Impairment on fixed assets

The Company and its consolidated subsidiaries (“the Company”) classified fixed assets into groups by the type of respective business, which are the minimum units generating cash flows. For fixed assets in the petroleum business, each service station operated by the Company is considered to constitute a group and other assets are classified as one group. For fixed assets in the oil resource development business, IPP business, buildings for rent business and non-performing assets, each property is considered to constitute a group. Due to the significant decrease in the market value of the Company's land as well as to the overall deterioration of its business environment, book value of these fixed assets was reduced to recoverable amounts and impairment loss of ¥11,330 million ($105,503 thousand), consisting of the following, was recognized for the year ended March 31, 2005.

			Impairment loss	
Use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars (Note 1)
Petroleum	Cosmo Oil Sales Co., ltd.			
	service stations	Land	¥ 1,043	$ 9,712
	Tokorozawa-shi,Saitama and 7 others	Other	166	1,546
			1,209	11,258
Buildings for rent	Cosmo Oil Co., ltd.	Land	321	2,989
	Sakai-shi, Osaka and 11 others	Other	511	4,758
			832	7,747
Non-performing assets	Cosmo Oil Co., ltd.	Land	6,329	58,935
	Kobe-shi, Hyogo and 115 others	Other	2,960	27,563
			9,289	86,498
Total			¥ 11,330	$ 105,503

Recoverable amounts of petroleum business and buildings for rent business are primarily determined by value in use, which is the present value of expected future cash flows from on-going utilization and sub segment disposition of the fixed assets based on a discount rate of 4%.

Recoverable amounts of non-performing assets are primarily determined by their estimated fair values. Such fair values or real estate appraisal standards in case of material assets.

Note 14. Segment information

(1) Business segment information

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

For the years ended March 31, 2003, 2004 and 2005, summarized product business operations of the Company and its consolidated subsidiaries were as follows:

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

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

Year ended March 31, 2005	Petroleum	Oil Resource Development	Other	Total	Elimination or corporate	Consolidated
						Millions of yen
Net sales:						
Outside customers	¥ 2,104,737	¥ 11,544	¥ 38,278	¥ 2,154,559	¥ —	¥ 2,154,559
Inter-segment	520	25,359	44,728	70,607	(70,607)	—
Total	2,105,257	36,903	83,006	2,225,166	(70,607)	2,154,559
Operating expenses	2,050,523	24,942	83,063	2,158,528	(69,667)	2,088,861
Operating income (loss)	¥ 54,734	¥ 11,961	¥ (57)	¥ 66,638	¥ (940)	¥ 65,698
Identifiable assets, depreciation and amortization and capital expenditures:						
Assets	¥ 1,165,700	¥ 95,668	¥ 41,533	¥ 1,302,901	¥ 20,248	¥ 1,323,149
Depreciation and amortization	¥ 21,724	¥ 3,606	¥ 107	¥ 25,437	¥ (510)	¥ 24,927
Impairment Loss on Fixed assets	¥ 11,330	¥ —	¥ —	¥ 11,330	¥ —	¥ 11,330
Capital expenditures	¥ 25,758	¥ 4,627	¥ 100	¥ 30,485	¥ (372)	¥ 30,113

Year ended March 31, 2005	Petroleum	Oil Resource Development	Other	Total	Elimination or corporate	Consolidated
						Thousands of U.S. dollars (Note 1)
Net sales:						
Outside customers	$ 19,599,004	$ 107,496	$ 356,439	$ 20,062,939	$ —	$20,062,939
Inter-segment	4,842	236,139	416,501	657,482	(657,482)	—
Total	19,603,846	343,625	772,940	20,720,421	(657,482)	20,062,939
Operating expenses	19,094,171	232,256	773,471	20,099,898	(648,729)	19,451,169
Operating income (loss)	$ 509,675	$ 111,379	$ (531)	$ 620,523	$ (8,753)	$611,770
Identifiable assets, depreciation and amortization and capital expenditures:						
Assets	$ 10,854,828	$ 890,846	$ 386,750	$ 12,132,424	$ 188,546	$12,320,970
Depreciation and amortization	$ 202,291	$ 33,579	$ 996	$ 236,866	$ (4,749)	$ 232,117
Impairment Loss on Fixed assets	$ 105,503	$ —	$ —	$ 105,503	$ —	$ 105,503
Capital expenditures	$ 239,855	$ 43,086	$ 931	$ 283,872	$ (3,464)	$ 280,408

As described in Note 2, effective January 1, 2002, Cosmo Engineering Company Limited changed its revenue recognition from the complete construction method to the percentage of completion method for long-term and large engineering contracts which are more than 1 year and of which the contract amount is more than ¥100 million ($931 thousand).

As a result of the change, sales recorded as "Other" for the year ended March 31, 2003 increased by ¥312 million ($2,905 thousand) and operating income increased by ¥9 million ($84 thousand), respectively.

The Company's modified business sectionalization and business segment information for "Oil Resource Development" are disclosed independently for the year ended March 31, 2003 because sales, operating income, and assets for "Oil Resource Development" has been growing in importance year by year.

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

As a result, operating expenses for "Petroleum", "Oil Resource Development" and "Other" increased by ¥670 million ($6,239 thousand), ¥16 million ($149 thousand) and ¥34 million ($317 thousand), respectively, and operating income for each of these three segments decreased by the same amount for the year ended March 31, 2003, respectively.

(2) Geographic Segment information

Geographic segment information of the Company and its consolidated subsidiaries for the year ended March 31, 2004 and 2005 is disclosed as follows;

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

	Millions of yen				
Year ended March 31, 2005	Japan	Other	Total	Elimination or corporate	Consolidated
Net sales:					
Outside customers	¥ 2,121,279	¥ 33,280	¥ 2,154,559	¥ —	¥ 2,154,559
Inter-segment	12,267	203,122	215,389	(215,389)	—
Total	2,133,546	236,402	2,369,948	(215,389)	2,154,559
Operating expenses	2,079,013	224,422	2,303,435	(214,574)	2,088,861
Operating income	¥ 54,533	¥ 11,980	¥ 66,513	¥ (815)	¥ 65,698
Assets	¥ 1,215,644	¥104,159	¥ 1,319,803	¥ 3,346	¥ 1,323,149

	Thousands of U.S. dollars (Note 1)				
Year ended March 31, 2005	Japan	Other	Total	Elimination or corporate	Consolidated
Net sales:					
Outside customers	$ 19,753,040	$ 309,899	$ 20,062,939	$ —	$ 20,062,939
Inter-segment	114,229	1,891,442	2,005,671	(2,005,671)	—
Total	19,867,269	2,201,341	22,068,610	(2,005,671)	20,062,939
Operating expenses	19,359,466	2,089,785	21,449,251	(1,998,082)	19,451,169
Operating income	$ 507,803	$ 111,556	$ 619,359	$ (7,589)	$611,770
Assets	$ 11,319,900	$ 969,913	$ 12,289,813	$ 31,157	$ 12,320,970

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

(3) Exports sales Information

Export sales information is not disclosed, as export sales from Japan represent less than 10% of the consolidated net sales for the years ended March 31, 2003, 2004 and 2005.

Note 15. Pledged assets

Assets pledged as collateral at March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Land	¥ 265,156	**¥ 267,484**	**$ 2,490,772**
Buildings and structures at net book value	35,225	**35,358**	**329,248**
Machinery and equipment at net book value	35,245	**54,409**	**506,649**
Investments in securities	5,513	**2,763**	**25,729**
Cash and deposits	100	**280**	**2,607**
Total	¥ 341,239	**¥ 360,294**	**$ 3,355,005**

Secured liabilities at March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Notes and accounts payable, trade	¥ —	**¥ 5**	**$ 47**
Short-term loans	24,085	**6,058**	**56,411**
Long-term debts	202,611	**171,401**	**1,596,061**
Other long-term liabilities	470	**471**	**4,386**
Total	¥ 227,166	**¥ 177,935**	**$ 1,656,905**

Other pledged assets at March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	**2005**	**2005**
Deposits as security for dealing:			
Marketable securities	¥ 13	**¥ 54**	**$ 503**
Investments in securities	50	**9**	**84**
Total	¥ 63	**¥ 63**	**$ 587**

Note 16. Subsequent events

On June 29, 2005, the Company's annual shareholders' meeting approved a year-end cash dividend payment of ¥5.00 (US$0.05) per share, or a total of ¥3,158 million ($29,407 thousand) to shareholders of record at March 31, 2005.

INDEPENDENT AUDITORS' REPORT

To Board of Directors of
COSMO OIL COMPANY, LIMITED:

We have audited the accompanying consolidated balance sheets of COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

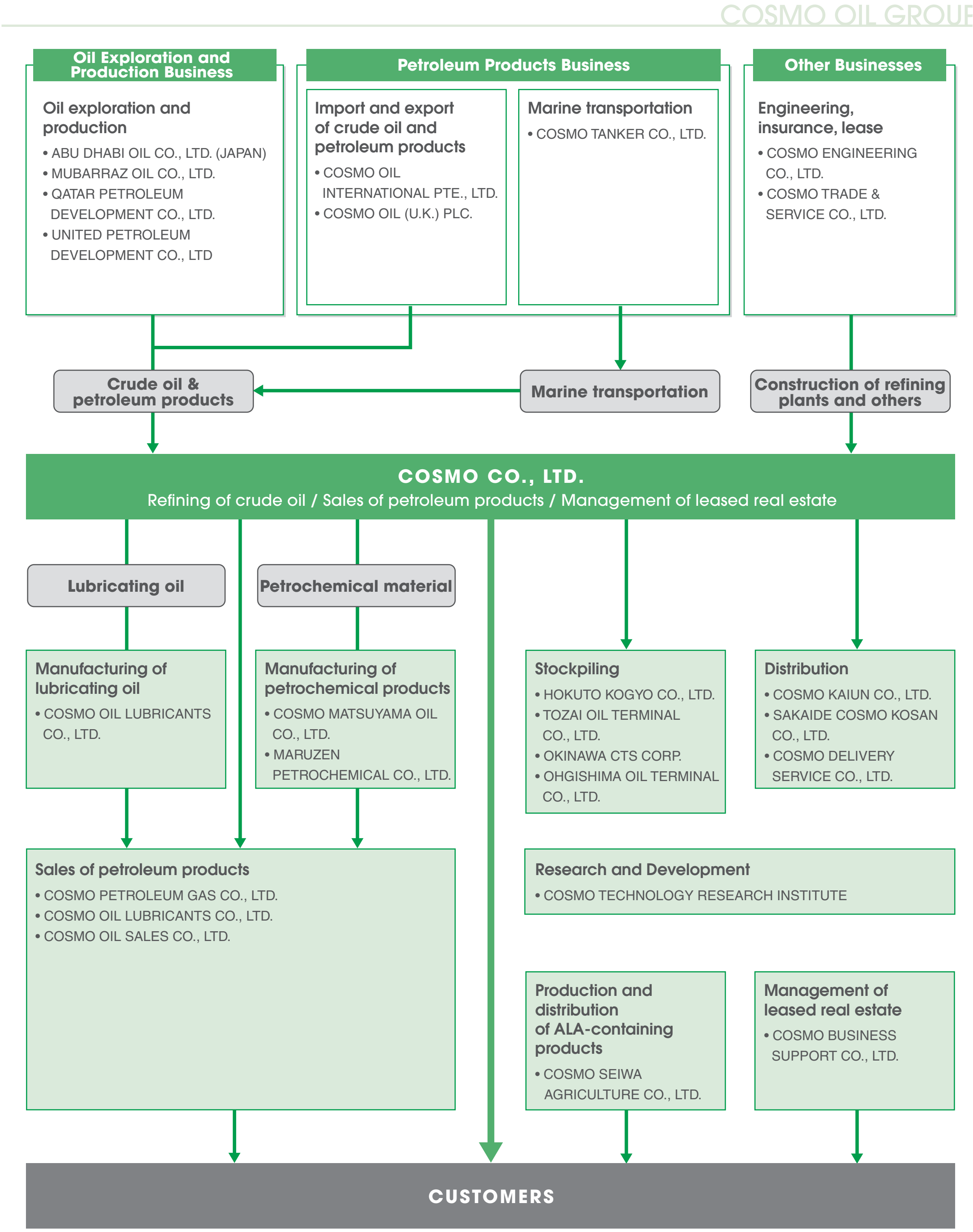
Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 2 to the consolidated financial statements, effective from the fiscal year ended March 31,2005, COSMO OIL COMPANY,LIMITED changed the method of the accounting for retirement benefits for directors and corporate auditors.
(2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2004, COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries adopted the new accounting standard for impairment on fixed assets.
(3) As discussed in Note 2 to the consolidated financial statements, for the year ended March31, 2004, some of consolidated subsidiaries of COSMO OIL COMPANY, LIMITED changed classification of logistics expense and subcontracting work expense from cost of sales to selling, general and administrative expense.
(4) As discussed in Note 14 to the consolidated financial statements, effective April 1, 2002, COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries changed its business segment and allocation method of operating expenses.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2005

MAJOR SUBSIDIARIES AND AFFILIATES



GLOBAL NETWORK

JAPAN

OIL EXPLORATION & PRODUCTION

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

Abu Dhabi Oil Co., Ltd. (Japan)*
- ■ Tokyo
- ■ ¥10,090 million
- ■ 62.62%
- ■ Oil exploration and production

Cosmo Oil Ashmore Ltd.*
- ■ Tokyo
- ■ ¥1,784 million
- ■ 51.00%
- ■ Oil exploration and development

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

Mubarraz Oil Co., Ltd.*
- ■ Tokyo
- ■ ¥10 million
- ■ 62.62% (62.62%)
- ■ Oil exploration and production

Qatar Petroleum Development Co., Ltd.
- ■ Tokyo
- ■ ¥3,148 million
- ■ 85.19%
- ■ Oil exploration and development

MARINE TRANSPORTATION

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

PETROCHEMICAL PRODUCTION

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

Maruzen Petrochemical Co., Ltd.#
- ■ Tokyo
- ■ ¥10,000 million
- ■ 42.11% (10.53%)
- ■ Manufacture and sales of petrochemical products

DISTRIBUTION & STOCKPILING

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

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

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

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

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

OVERSEAS

SALES OF PETROLEUM PRODUCTS

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

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

Cosmo Oil Sales Co., Ltd.*
- ■ Tokyo
- ■ ¥585 million
- ■ 100%
- ■ Marketing and sales of oil products

RESEARCH & DEVELOPMENT

Cosmo Research Institute*
- ■ Tokyo
- ■ ¥50 million
- ■ 100.00%
- ■ Research and technical corporation

Cosmo Technology Research Institute*
- ■ Tokyo
- ■ ¥10 million
- ■ 100%
- ■ Research and development of petroleum refining technology, etc.

ENGINEERING

Cosmo Engineering Co,. Ltd.*
- ■ Tokyo
- ■ ¥385 million
- ■ 91.92% (3.00%)
- ■ General plant and equipment engineering

OTHERS

Cosmo Business Support Co., Ltd.*
- ■ Tokyo
- ■ ¥300 million
- ■ 100.00%
- ■ Integrated human resources services and management of leased real estate

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

Cosmo Oil International Pte., Ltd.*
- ■ Singapore
- ■ S$19,500,000
- ■ 100%
- ■ Purchase and sale of crude oil and finished products

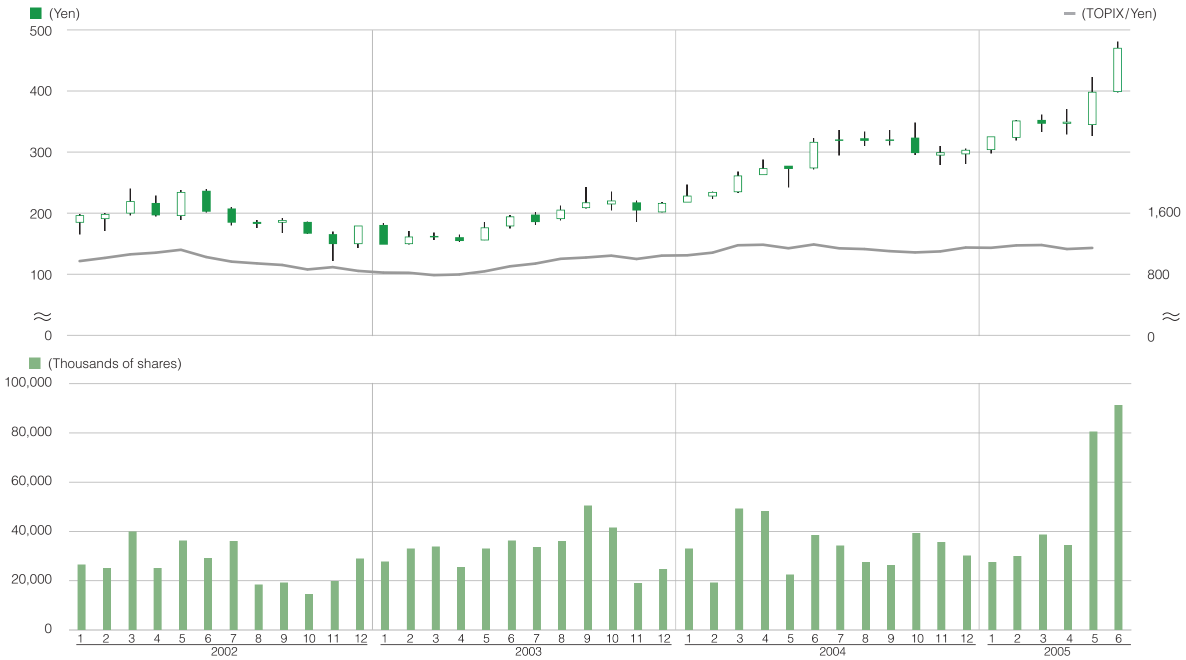
Cosmo Oil of U.S.A., Inc.*
- ■ California
- ■ US$250,000
- ■ 100.00%
- ■ Business services for Cosmo Oil Co., Ltd.

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

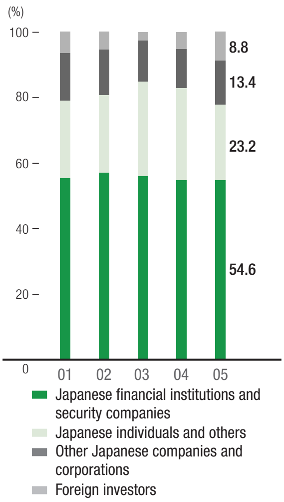
■ Location
■ Paid-in Capital
■ Shareholdings (indirect shareholdings)
■ Principal Business
* Consolidated
\# Accounted for by the equity method

INVESTOR INFORMATION

Price Range of Stock & Trading Volume



Shares by Type of Shareholder



PRINCIPAL SHAREHOLDERS

	Number of shares owned (Thousands)	Percentage of total shares issued
Japan Trustee Services Bank, Ltd. (trust account)	74,380	11.8%
The Master Trust Bank of Japan, Ltd. (trust account)	33,078	5.2
Mizuho Corporate Bank, Ltd.	31,320	5.0
Mitsui Sumitomo Insurance Company, Limited	21,878	3.5
The Kansai Electric Power Co., Inc.	18,600	2.9
The Tokio Marine and Fire Insurance Company, Limited	18,586	2.9
Cosmo Oil Employees' Shareholding Association	16,270	2.6
Sompo Japan Insurance Inc.	15,792	2.5
UFJ Bank Ltd.	12,242	1.9
Nissay Dowa General Insurance Co., Ltd.	12,000	1.9

CORPORATE DATA

HEAD OFFICE	1-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8528, Japan Phone: +81-3-3798-3211 Fax: +81-3-3798-3841 URL: http://www.cosmo-oil.co.jp
ESTABLISHED	April 1, 1986
COMMON SHARES	Authorized: 1,700,000,000
PAID-IN CAPITAL	¥51,886,816,126
TYPE OF BUSINESS	Refining and sales of oil products
FISCAL YEAR-END	March 31
NUMBER OF EMPLOYEES	1,729
NUMBER OF DEALERS	318
REFINERIES	Chiba, Yokkaichi, Sakai, Sakaide
NUMBER OF COMMON SHARES ISSUED	631,705,087 shares
TRANSFER AGENT	The Chuo Mitsui Trust & Banking Co., Ltd.

Inquiries:

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