Setting the Course for Strategic Growth

COSMO OIL CO., LTD.

ANNUAL REPORT 2007

For the year ended March 31, 2007

Profile

The Cosmo Oil Group focuses on energy from petroleum as it endeavors to help meet the various needs of society. At the same time, we aim to maximize corporate value through sustainable development. We are working to improve competitiveness and boost profitability through the further integration of our core petroleum operations, which range from upstream development to downstream sales of petroleum products and petrochemicals. In the fiscal year ended March 31, 2006, we launched our New Consolidated Mid-Term Management Plan for the fiscal years ending March 31 from 2006 through 2008. This three-year plan is designed to set the stage for the next 20 years by establishing a stable management infrastructure that will enable us to withstand future structural changes and effect our shift to a growth strategy.

Cautionary Statement Regarding Forward-Looking Statements

This annual report contains forward-looking statements regarding the Cosmo Oil Group's future plans, strategies, and business performance plans as well as forecasts. Rather than representing past results, these statements are forecasts based on information, decisions and plans as of the date of this report. In addition, there are various risks involved in the oil industry, including severe competition, market demand and various regulations. As a result, investors are cautioned not to use such forward-looking statements as the sole source for investment decisions, as actual results and business performance for the Group may differ materially from these statements.

Contents

Annual Report at a Glance

- During the fiscal year ended March 31, 2007, consolidated net sales came to ¥3,062.7 billion, up ¥392.1 billion, or 14.7%, from the preceding fiscal year. Operating income dropped 37.4%, or ¥41.6 billion, to ¥69.6 billion. Operating income excluding the impact of inventory valuations increased 1.5%, or ¥1.0 billion, to ¥66.8 billion. Net income came to ¥26.5 billion, down ¥35.3 billion, or 57.1%.

- The Group is endeavoring to enhance shareholder value by maximizing profit in its four-business portfolio: the core petroleum refining and marketing business; the oil exploration and production and petrochemicals businesses, which are drivers of growth; and new businesses, which include 5-aminolevulinic acid (ALA) and environment-related activities.

- This annual report provides revenue and profit forecasts for the fiscal year ending March 31, 2008, which is the final year of the New Consolidated Mid-Term Management Plan, describes the management direction of the next mid-term management plan, and discusses investment in oil refinery upgrades, as announced in November 2006. Investment in oil refinery upgrades will play a particularly vital role in the next mid-term management plan. This annual report discusses the objectives of this investment and our thoughts on return.

- In the oil exploration and production segment, steep rises in crude oil prices and higher production volume caused sales and income to increase. In the petroleum business segment, petrochemicals and LPG contributed to segment earnings, as did sales by the Group's lubricating oil sales company. However, reduced refinery operations stemming from the fire at the Chiba refinery, warm winter in Japan and a shift to other energy sources caused sales volume to decline. As a result, segment sales increased, while income decreased.

- To fulfill our corporate social responsibilities and maximize the satisfaction of all stakeholders, including shareholders, the Group is striving to raise management transparency and efficiency, accelerate business execution, and ensure thorough risk management and compliance, based on the Cosmo Oil Group Management Vision and the Cosmo Oil Group Corporate Ethics Regulations.

- In the Consolidated Medium-Term Management Plan covering the fiscal years ended March 2004 and 2005 as well as the New Consolidated Medium Management Plan that began from April 1, 2006, progress has been made in value enhancement and cost rationalization as well as in terms of the earnings contribution from the oil exploration and production and petrochemicals businesses. As a result, we have been able to focus on strengthening our balance sheet while operating income excluding the impact of inventory valuations has grown from ¥6.9 billion in the year ended March 31, 2003 to ¥66.8 billion in the year ended March 31, 2007.

- The Cosmo Oil Group consists of Cosmo Oil Co., Ltd., 63 subsidiaries and 42 affiliated companies. The Group's primary business is the independent development, refining, storage and sale of crude oil. In addition, the Company and some of its affiliates are involved in real estate sales, the construction of oil-related facilities and insurance agency businesses.

- The share price of Cosmo Oil Co., Ltd., has risen 211.9%, from ¥218 in early January 2004 to ¥680 at the end of June 2007.

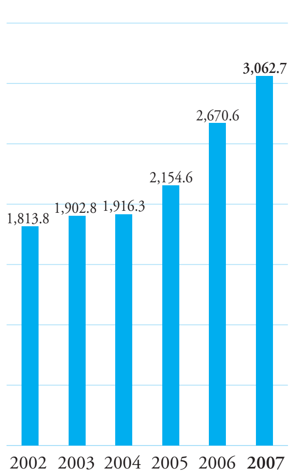
Consolidated Financial Highlights

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

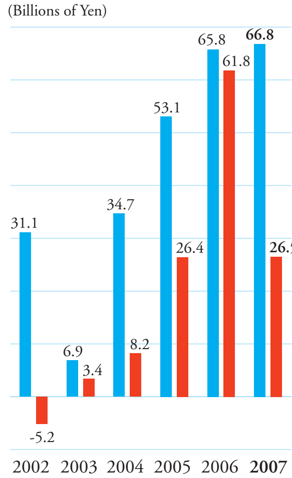
	2002	2003	2004	2005
For the Year:				
Net sales	1,813,838	1,902,768	1,916,278	2,154,559
Operating income	22,057	24,167	25,246	65,698
Inventory valuation gain (loss)	(9,000)	17,300	(9,500)	12,600
Operating income excluding the impact of inventory valuations	31,057	6,867	34,746	53,098
Net income (loss)	(5,190)	3,426	8,179	26,415
At Year End:				
Total assets	1,242,171	1,246,730	1,260,092	1,323,149
Shareholders' equity	194,303	193,595	204,806	227,897
Interest-bearing debt	548,653	562,649	559,259	497,804
Amounts per Share:				
Net income per share	(8.24)	5.42	12.95	41.73
Net assets per share	308.65	306.67	324.43	360.93
Cash dividends	6.0	6.0	6.0	8.0
Ratios:				
ROA (%)	—	0.3	0.7	2.0
ROE (%)	—	1.8	4.1	12.2

Notes: 1. U.S. dollar amounts in this report have been translated, for convenience only, at the exchange rate of ¥118.05 = US$1.00, the prevailing rate at March 31, 2007.
2. From the fiscal year ended March 2007, shareholders' equity is expressed as total net assets minus minority interest.

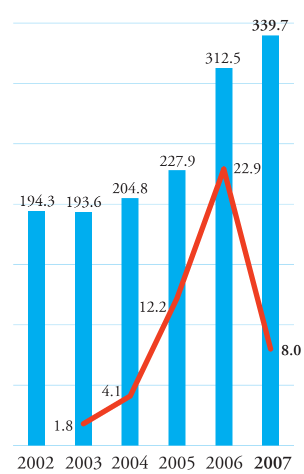
Net Sales
(Billions of Yen)



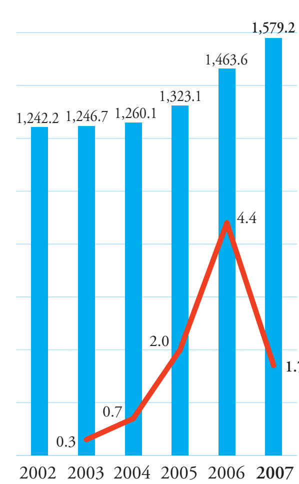
Operating Income Excluding the Impact of Inventory Valuations
Net Income (Loss)
(Billions of Yen)



Shareholders' Equity (Billions of Yen)
ROE (%)



Total Assets (Billions of Yen)
ROA (%)



	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
	2,670,628	3,062,744	25,944,464
	111,248	69,643	589,945
	45,400	2,800	23,719
	65,848	66,843	566,226
	61,795	26,536	224,786
	1,463,579	1,579,156	13,377,010
	312,504	339,701	2,877,603
	522,430	609,890	5,166,370
		Yen	U.S. Dollars
	94.54	39.54	0.33
	465.48	506.15	4.29
	10.0	8.0	0.07
	4.4	1.7	—
	22.9	8.0	—

● **Operating Income** Operating income fell ¥41.6 billion. The primary reason was a ¥42.6 billion decrease from the prior fiscal year gain on inventory valuation.

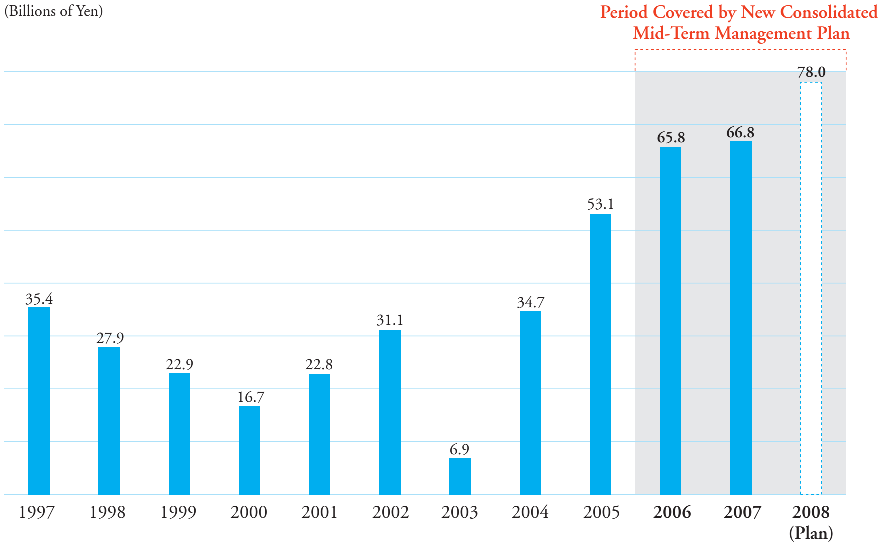
● **Operating Income Excluding the Impact of Inventory Valuations** Operating income excluding the impact of inventory valuations rose ¥1.0 billion. The fire at our Chiba refinery caused a decrease in refinery operations and an increase in outside procurement costs, and lower sales volume resulted in lower sales. However, income increased, owing to the effects of value enhancement and cost rationalization and increased income of principal consolidated subsidiaries in the oil exploration and production and petrochemicals businesses.

● **Net income** Net income declined by ¥35.3 billion from the previous fiscal year. As previously explained, the major reason was that reported gains from inventory valuations were much lower. In addition, other income was ¥7.5 billion lower, mainly because interest and dividends received declined by ¥4.6 billion.

● **ROA and ROE** Net income decreased ¥35.3 billion, to ¥26.5 billion. Consequently, return on assets (ROA) dropped 2.7 percentage points, to 1.7%, and return on shareholders' equity (ROE) fell 14.9 percentage points, to 8.0%.

Trend in Operating Income Adjusted for the Impact of Inventory Valuations

(Billions of Yen)



The gross average method was adopted as the inventory valuation method from the year ended March 31, 2001.
Forecasts for the year ending March 31, 2008, were announced in May 2007.

The Cosmo Oil Group Mission

The Cosmo Oil Group's mission is to form a solid management base for operations encompassing oil production and exploration, petroleum refining/marketing and the petrochemical business, provide a stable source of energy, and fulfill its corporate social responsibilities in becoming a sustainable corporate group that continually responds to changes.

To achieve sustainable growth, we must continue to evolve in concert with the changing times and establish a management base that protects us from shifts in the operating environment. At the same time, we must invest in growth and contribute to society by fulfilling our corporate social responsibilities.

Operating Results for the Year Ended March 31, 2007

During the year ended March 31, 2007, the Group's net sales surged ¥392.1 billion, to ¥3,062.7 billion, as selling prices rose in tandem with sharply higher crude oil prices. However, operating income fell ¥41.6 billion, to ¥69.6 billion, and net income dropped ¥35.3 billion, to ¥26.5 billion. Ignoring the impact of inventory valuations, operating income rose ¥1.0 billion, to ¥66.8 billion. This increase was mainly due to improved product margins, our efforts to improve profitability by following the New Consolidated Mid-Term Management Plan, and the earnings contribution from our oil exploration and production, petrochemical and other subsidiaries.

On the other hand, higher automobile fuel efficiency, warm winter weather in Japan, a shift to other energy sources, which caused sales volumes to decline, higher fuel expenditures for our refineries because of higher crude oil prices, and lower refinery operating ratios were factors negatively affecting earnings.

We fully understand that the April 2006 fire at our Chiba refinery and the ensuing discovery of wrongdoing at the refinery in August caused our shareholders untoward inconvenience and concern, and we offer our heartfelt apologies for this situation. The Group recognizes these incidents as grave issues and is making every effort to prevent their recurrence. We have reconfigured our safety management system, which performs overall safety management of refineries, and we have redoubled our compliance efforts to regain society's trust.

Striving for Future Growth

To ensure sustainable growth, the Group aims to maximize profit margins in its four-business portfolio of petroleum refining and manufacturing, oil exploration and production, petrochemicals and new businesses. In petroleum refining and marketing, a mainstay Group business, we aim to deliver value-added enhancements. Further investment will raise the competitiveness of our refineries, and we will work to acquire valuable sales routes in Japan and reinforce overseas operations, forming a more robust base from which to deliver sales and profits. The oil exploration and production business, as well as the petrochemicals business, will drive Group growth. We expect these businesses to expand in scale and deliver stronger sales and profits. In the new business arena, our ALA business (described in detail on page 20) and environmental businesses will establish our future directions and boost profitability. We intend to commercialize these businesses early on, turning them into pillars of earnings. The Group will bolster corporate value as it strives to maximize profit margins in these four businesses.

June 2007

Keiichiro Okabe

Keiichiro Okabe
Chairman

Y. Kimura

Yaichi Kimura
President

Keiichiro Okabe
Chairman

Yaichi Kimura
President

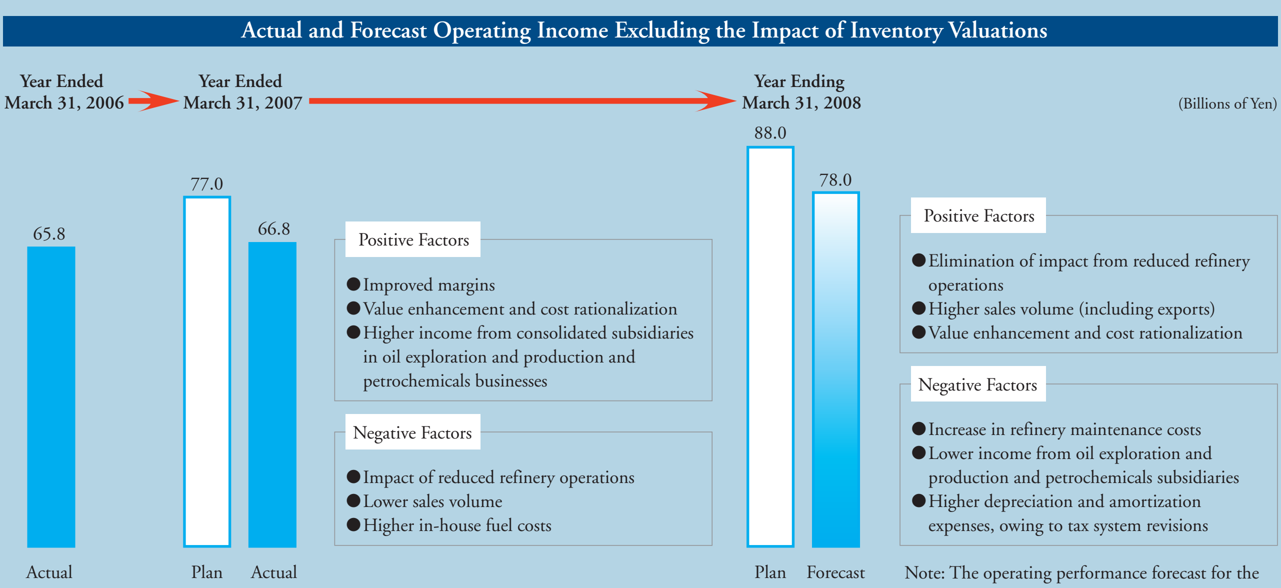
Q1

Please outline your income targets for the year ending March 31, 2008, the final year of the New Consolidated Mid-Term Management Plan. Also, how are you progressing with the two pillars of that plan: i.e., to establishing a stable earnings base and shifting to a growth strategy?

A1 Unfortunately, we are likely to miss our income target. When we formulated our plan, Dubai crude was priced at around $30/barrel, but has since escalated to around $70/barrel. We have also been affected by an accident at our Chiba refinery. In terms of reinforcing our earnings base, we have launched aggressive sales strategies centering on self-service stations and worked to raise the efficiency of refining facilities. We have succeeded in boosting our self-service station ratio to 18.1%, substantially exceeding the nationwide ratio of 13.1%. Although these initiatives have helped us make headway in reinforcing our earnings base and improving our financial structure, they fall short of the levels needed to reach our targets. I foresee ongoing efforts to attain these goals as a key component of our next medium-term management plan.

Looking at the oil exploration and production component of our growth strategy, Qatar Petroleum Development Co., Ltd., commenced commercial production according to plan, and the company's crude oil production volume is expanding. We have also expanded capacity in the petrochemical business, with CM Aromatics Co., Ltd., is now producing mixed xylene at a rate of 300,000 tons per year. Furthermore, we have made major strides in improving the profitability of our lubricating oil and liquefied petroleum gas (LPG) businesses.

In our current mid-term plan, we announced specific measures for investing in value-added improvements at refineries. These strategic investments link to the growth strategies of our upcoming mid-term plan and thereafter.



Note: The operating performance forecast for the year ending March 31, 2008, announced in May 2007, is based on a crude oil price of US$60/bbl (FOB) and an exchange rate of US$1 = ¥120.

Q2 Please describe the Group's management direction for the next mid-term plan, taking into account progress on the current plan.

A2 Although the next mid-term management plan for the Cosmo Oil Group is still being formulated, at this stage I can say that the plan will aim to enhance earnings.

Although we expect demand for petroleum products to decline in Japan, we anticipate higher demand for petroleum and petrochemical products from the Asia-Pacific region, in line with its rising population. Although oil refining and sales is a mature industry in Japan, it is a growth industry in the Asia-Pacific region.

In this management environment, the Cosmo Oil Group will strive to add value in the petroleum business, its mainstay earnings source, and to ensure the safety and stability of its supply operations. We also plan to invest in our refineries to raise their level of sophistication and competitiveness on a global scale. From a sales perspective, we will leverage our self-service SS (service station) development through ongoing efforts to secure superior sales routes. At the same time, we will work to establish stable sales routes in the Asia-Pacific region, providing the flexibility to meet demand in these growth markets.

In oil exploration and production, we will forge stronger relationships with oil-producing counties. We also plan to increase our equity crude production to 10% of total crude oil imports over the medium to long term. We will judiciously expand our production of petrochemicals, particularly mixed xylene, which offer profit opportunities. We will endeavor to raise efficiency in this area by enhancing liaisons with Cosmo Matsuyama Oil Co., Ltd., and Maruzen Petrochemical Co., Ltd. In environmental businesses, we hope to make rapid inroads in our new business in 5-amino levulinic acid (ALA).

Directions of the Next Mid-Term Management Plan

Petroleum Business	Refining	Ensure safe and stable operations Invest to increase competitiveness of refineries
	Marketing	Japan: Acquire strong sales routes through active expansion of self-service stations Overseas: Expedite exports to Asia, Oceania and U.S. west coast
Oil Exploration and Production	Maintain or increase production volumes	Focus on oil exploration and production in core area, the Middle East (Abu Dhabi, Qatar)
Petrochemicals	Mixed xylene business	Boost production of mixed xylene, as sales and income opportunity Strengthen ties with Cosmo Matsuyama Oil Co., Ltd., and Maruzen Petrochemical Co., Ltd.
New Businesses	ALA business	Promote commercialization of business in a wide variety of fields, including agriculture and health care

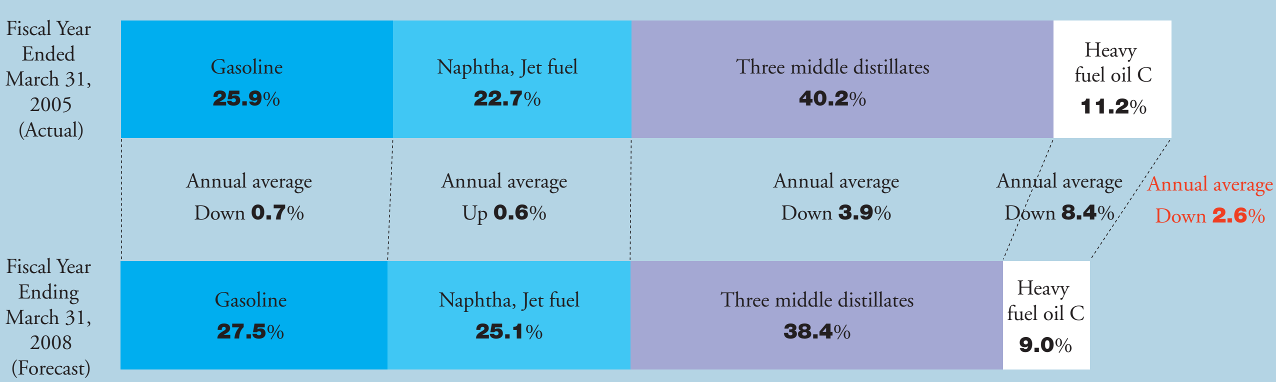
Q3 Would you describe for us some of the issues the Cosmo Oil Group faces as a result of the changing management environment in the petroleum industry?

A3● The measures in our mid-term management plan anticipated that domestic demand would fall and overseas demand would increase, but these changes in our operating environment have occurred even more quickly than we had expected.

Falling domestic demand has become particularly serious with regard to heavy fuel oils A and C. Growing environmental awareness and soaring crude oil prices have accelerated the shift to LNG and other energy sources. The conversion of heavy fuel oil C to high-value-added light distillates, such as naphtha (a gasoline and petrochemical feedstock), kerosene (for jet fuel) and diesel fuel, is a topic that extends beyond the Cosmo Oil Group to encompass the Japanese petroleum industry as a whole. By introducing heavy oil cracking equipment at Cosmo Oil's Sakai refinery, we are working to increase our ability to respond flexibly to such shifts in the demand structure.

Asia is well known as a source of demand growth for petroleum products, but in fact supplies in such regions as the west coast of the United States and Australia are also struggling to keep pace with demand because stricter environmental regulations are hampering local facility expansion. This same environmental legislation is boosting demand for petroleum products that have a reduced environmental impact. As one of our strengths is the ability to provide quality petroleum products in response to such environmental regulations, we are working to cultivate stable sales routes in these regions.

Forecast Domestic Demand for Petroleum Products



Note: Three middle distillates comprise kerosene, diesel fuel, heavy fuel oil A
Data Source: Agency for Natural Resources and Energy

Q4 What are the objectives and goals behind Cosmo Oil's investment in the Sakai refinery, as well as your thoughts concerning return on investment?

A4● In response to falling demand for heavy fuel oil and the major environmental shift toward lighter distillates, the Cosmo Oil Group has decided to invest ¥100 billion in the Sakai refinery. This money is earmarked for the construction of facilities for heavy oil cracking, cracked diesel fuel desulfurization and naphtha desulfurization.

The plant's heavy oil cracking facilities (cokers) will be used to convert heavy fuel oil C, for which we expect demand to continue falling, into high-value-added products such as naphtha, kerosene and diesel fuel. The introduction of desulfurization equipment in line with these cracking facilities will allow us to produce diesel fuel from heavy fuel oil A, which is experiencing demand reductions similar to heavy fuel oil C. This investment will make us the only group in Japan to have this combination of leading-edge facilities.

To the question of return on investment, in addition to improving the product mix, our introduction of this new group of facilities will allow us to process relatively inexpensive heavy oil. The ability to handle heavier feedstock will thereby reduce our cost of raw materials, which should enable us to easily recoup our investment.

Overview of Investment in Oil refinery upgrades

Project Profile	● Location of construction: Sakai Refinery, Osaka ● Capital expenditures: Approximately ¥100 billion ● Scheduled start of operations: Fiscal year ending March 31, 2011
Facility Overview	● Heavy oil cracking unit (coker) ● Resolved gas oil distillate hydrodesulfurization unit ● Naphtha hydrodesulfurization unit

Planned Capital Expenditures for Fiscal Years ending March 31 from 2006 to 2008

● Marketing (self-service SS)	¥15.0 billion
● Oil Exploration and production	¥30.0 billion
● Supply (petrochemicals)	¥4.0 billion
● Supply (refinery upgrades)	¥40.0 billion*
● Others	¥10.0 billion
● Maintenance and repairs	¥41.0 billion
Total	**¥140.0 billion**

* Of the ¥100 billion planned investment in refinery upgrades, this is the spending forecast for the fiscal years ending March 31, from 2006 to 2008.

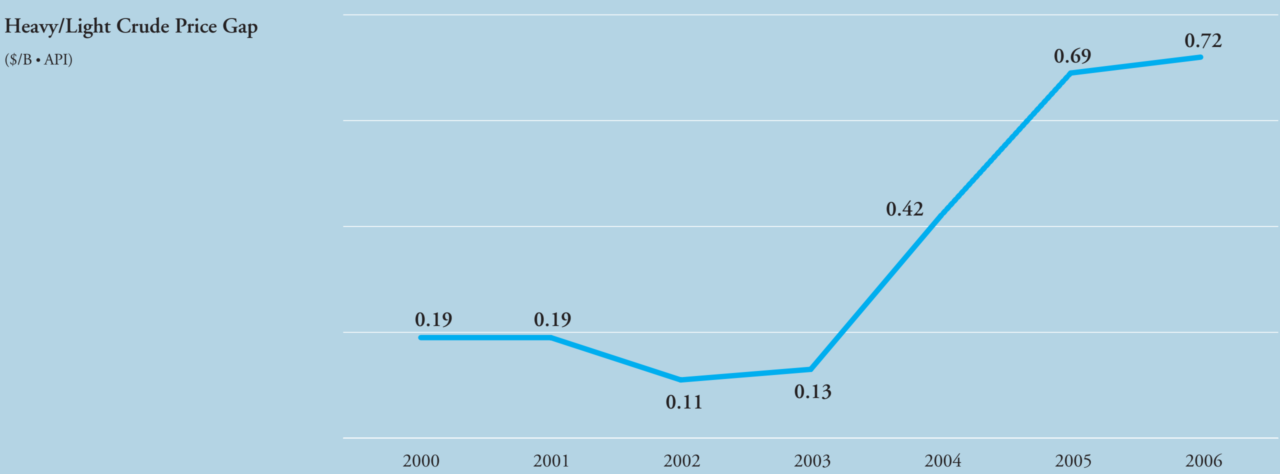
Q5 What are some of the risks that accompany this investment in upgrading facilities? In addition to investment recovery risk, is there any danger that introducing the intermediate distillates produced by these new facilities will disrupt the domestic market?

A5 Crude oil divides broadly into "heavy" and "light" grades, and the difference in price between these grades grows larger every year. Lighter grades of crude oil sell at higher prices because they can be converted into a greater number of high-value-added products. Conversely, heavier crude oil is less expensive due to falling demand. At present, the price differential is $0.70–$0.80/barrel per degree of API gravity (a measure of crude oil specific weight developed by the American Petroleum Institute). Our plans are less optimistic, as they take into account the risk that the price gap will narrow. However, we believe a sharp shrinkage in the price differential between heavy and light crude is unlikely. The International Energy Agency (IEA) forecasts that the average grade of oil supplied to the marketplace will not grow noticeably lighter although crude oil development will expand through 2011. Second, we believe global economic growth will continue to support the current preference for lighter crude oil.

To the question about increased production of intermediate distillates, their principal destination is not Japan. Rather, we plan to focus on export shipments to regions having particularly stringent environmental regulations, such as the west coast of the United States, Australia and Europe. In the United States in particular, rather than simply exporting products, we plan to ensure supply stability by also participating in the local wholesaling business.

As in Japan, I see the establishment of stable sales routes overseas as an important opportunity for further Company growth. Through such efforts, we intend to raise our global position.

Gap in Heavy and Light Crude Prices (Price Difference on One Barrel of Saudi Arabian Crude, per API Gravity)



Source: Calculated by Cosmo Oil from publicized Saudi oil price data (official Selling Price)
Note: Calendar years

Q6 Please describe your commitment to shareholder value.

A6 First of all, I believe that steady growth plays an essential role in meeting the expectations of our shareholders and that our management must have an appropriate structure to respond to changes in the operating environment. I view investment as an indispensable element in achieving these goals.

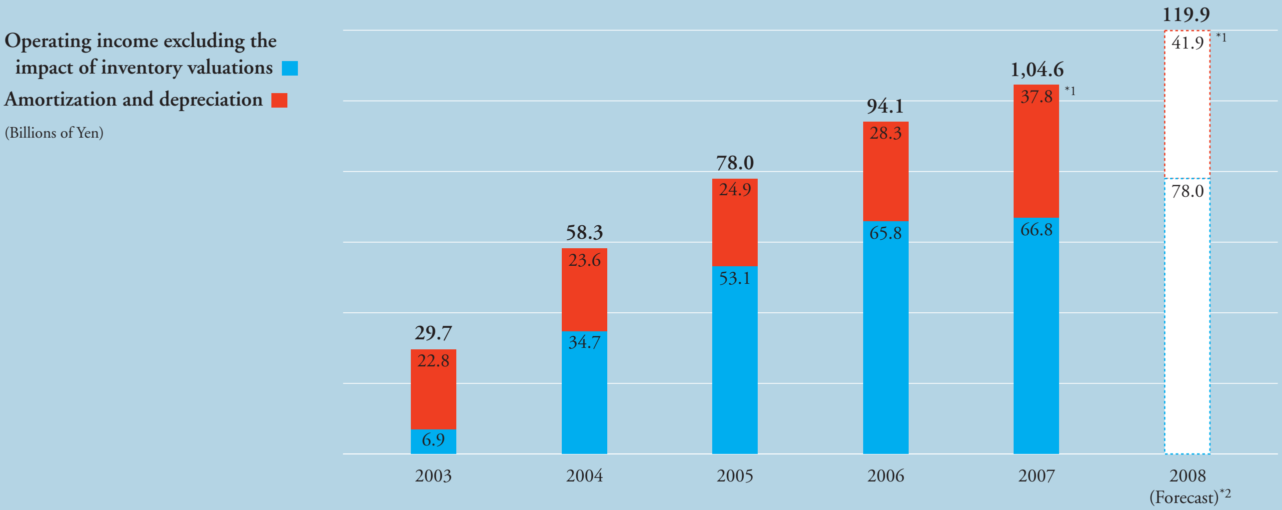
For the Cosmo Oil Group to sustain its development into the future and enhance shareholder value, I see the needs for establishing a stable earnings base and promoting socially responsible management as two sides of the same coin. Regaining the trust that we lost through last year's refinery incident and preventing a recurrence are vital, as is our redoubling of social responsibility initiatives. As part of our sustainable development initiatives, the Cosmo Oil Group recognizes its social responsibility to provide stable energy supply in a manner that offers peace of mind to its customers and to conduct "management with integrity" that contributes to society.

Shareholder return is of prime importance. Beginning with our next mid-term management plan, we will set levels of investment that allow us to grow while responding to changes in the operating environment, as well as profit levels that ensure appropriate shareholder return and cash flows.

While working toward the 2010 culmination of refinery upgrade investments, the Cosmo Oil Group will accelerate its shift to a growth strategy.

In closing, I would like to re-emphasize my commitment to meeting shareholders' expectations and enhancing shareholder value.

EBITDA, Excluding the Impact of Inventory Valuations



*1 Includes recovery of production sharing costs
*2 Operating performance forecasts announced in May 2007

Oil Exploration and Production

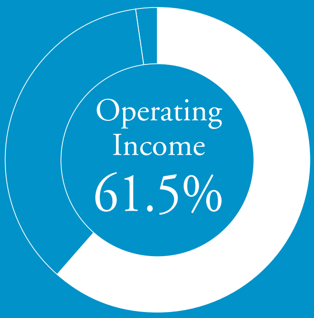
Petroleum Refining and Petrochemicals

Petroleum Sales

The Cosmo Oil Group, in order to provide stable supply, has established an integrated business domain that encompasses upstream operations (oil exploration and production), mid-stream operations (petroleum refining and petrochemicals) and downstream operations (sales of petroleum and petrochemical products).

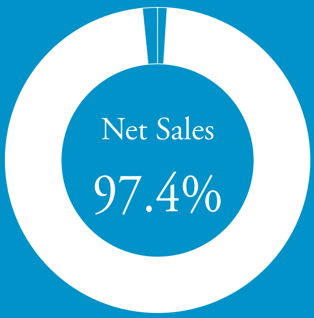
Oil Exploration and Production Business

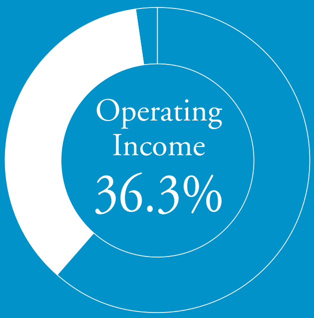
The Group has stable production of crude oil in the United Arab Emirates through equity oil production at Abu Dhabi Oil Co., Ltd., and United Petroleum Development Co., Ltd., a company that is included in consolidated financial statements as an equity affiliate. The Group also began equity commercial production in Qatar in March 2006 through the Qatar Petroleum Development Co., Ltd. Due to both increasing production volume and rising crude oil prices, net sales for the Oil Exploration and Production segment increased ¥14.8 billion or 87.3% year-on-year to ¥31.9 billion, while operating income increased ¥14.1 billion or 48.2% year-on-year to ¥43.5 billion.



Petroleum Business

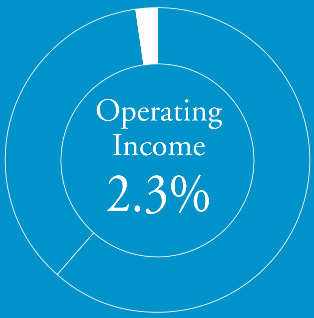
The Group also produces and sells petroleum products and petrochemical products. While value-added enhancements and cost rationalization were achieved as planned and consolidated subsidiaries including the Group's petrochemical subsidiary recorded higher earnings, decreased sales volumes due to a warm winter and the conversion to other energy sources, an accidental fire at the Chiba refinery which resulted in a temporary stoppage of operations, and a significant decline in inventory valuation gains resulted in lower earnings despite increased sales for the segment. Net sales for the segment were ¥2,983.9 billion (up ¥367.0 billion or 14.0% year-on-year), while operating income declined ¥57.8 billion or 69.3% year-on-year to ¥25.7 billion.





Other Businesses

In addition to the above, the Group is also involved in purchase, sales and rental of real estate premises, and oil related facilities construction, leasing and insurance sales. Because of efforts to rationalize each of these businesses to make them more efficient, net sales in this segment rose ¥10.3 billion or 27.9% year-on-year to ¥46.9 billion, while operating income rose ¥600 million or 60.8% year-on-year to ¥1.6 billion.



Note: Net sales amounts are adjusted for inter-segment sales. Operating income is prior to eliminations and corporate adjustments.
Totals do not add to 100% because of rounding.

Oil Exploration and Production

Steady Production in Our Core Region, the Middle East

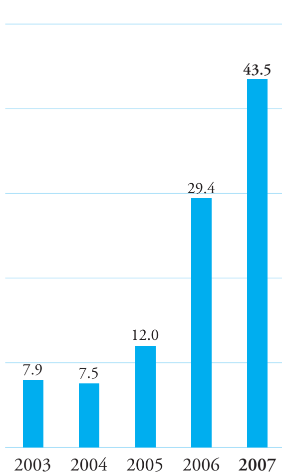
The basic policy of the Cosmo Oil Group's oil exploration and production business is to (1) invest in low-risk deals, (2) leverage the current core region (Abu Dhabi, Qatar), (3) seek an early return on cash flow and (4) concentrate on operations to develop technical knowledge and accumulate experience. The Group conducts oil exploration and production through Abu Dhabi Oil Co., Ltd. and United Petroleum Development Co., Ltd. (an equity-method company) that operates in Abu Dhabi, in the United Arab Emirates. In March 2006, Qatar Petroleum Development Co., Ltd., also began commercial production. This company operates in Qatar, within our core production area in the Middle East. During the year ended March 31, 2007, increased oil exploration and production by Abu Dhabi Oil, United Petroleum Development and Qatar Petroleum Development resulted in daily production of 26,500 barrels/day, roughly in line with our equity in these companies.

In the year ended March 31, 2007, net sales of the oil exploration and production business grew 87.3%, to ¥31.9 billion, as crude oil prices surged. Abu Dhabi Oil's operations were strong, and Qatar Petroleum Development commenced commercial operations. Segment operating income expanded 48.2%, to ¥43.5 billion.

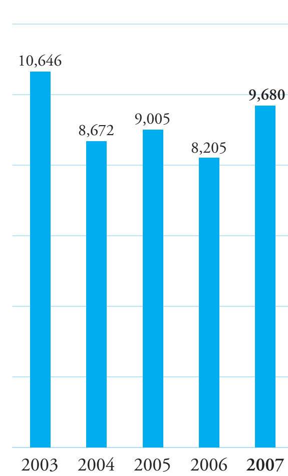
During the year under review, Qatar Petroleum Development produced over 6,000 barrels/day. In the year ending March 31, 2008, the company expects to raise this level to 10,000 barrels/day. Nearly all of the equity oil produced will be used by the Group's refineries. Currently, equity crude production accounts for 5% of the Cosmo Oil Group's total imported crude oil volume. However, we are considering the possibility of raising this rate to 10% over the medium to long term in accordance with our oil exploration and production policies.

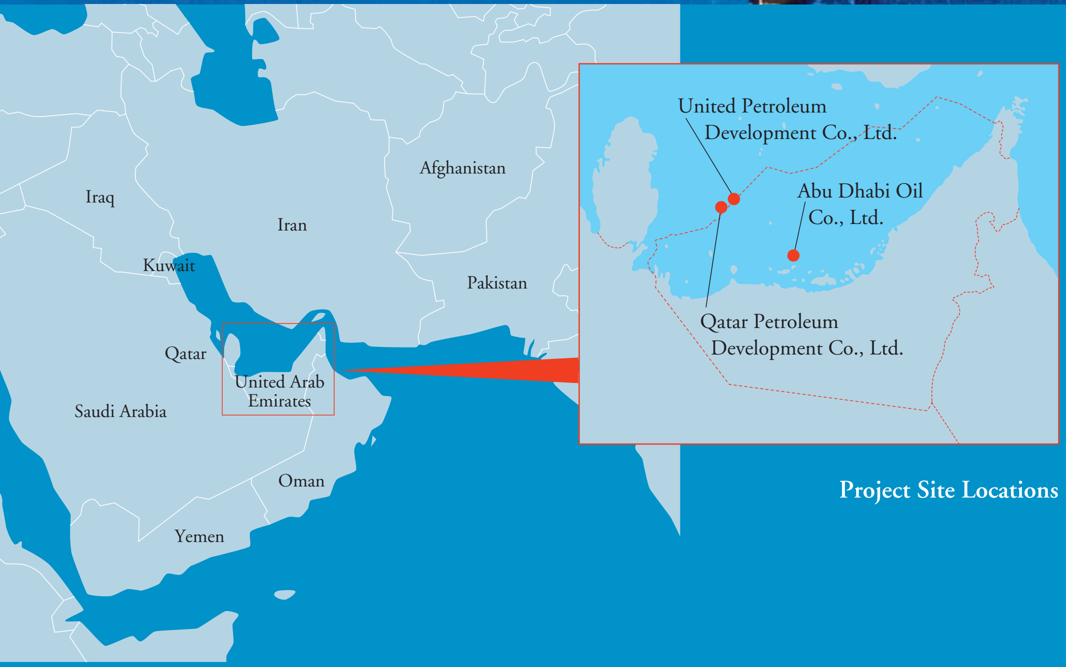
Note: Net sales amounts exclude inter-segment sales.

Operating Income from Oil Exploration and Production
(Billions of yen)



Annual Crude Oil Production
(Thousands of Barrels)





Project Site Locations

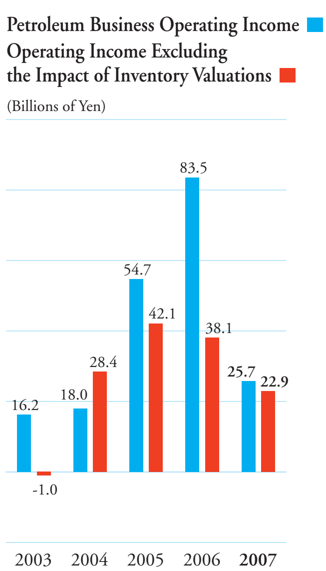
Petroleum Business (Petroleum Refining, Petrochemicals)

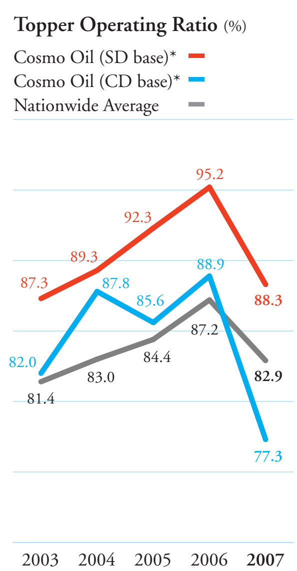
Ideally Located for Integrated Refining and Marketing

The Cosmo Oil Group imports crude oil produced within the Group and from oil-producing nations, refines it at four domestic refineries in Chiba, Yokkaichi, Sakai and Sakaide, and markets the output as petroleum products. The Group's refineries are located near the large consumption regions of Tokyo, Osaka and Nagoya, which means the Group is ideally located for integrated refining and marketing operations.

The petroleum business is the Group's core business. Cosmo Oil, the parent company, sells petroleum products directly to large users and wholesales petroleum products through distributors to retail customers. Like local SS (service station) operators, Cosmo Oil's wholly owned subsidiary, Cosmo Oil Sales Co., Ltd., acts as the Group's retail arm in purchasing petroleum products from Cosmo Oil for sale through the SS it operates. In related fields, Cosmo Oil Lubricants Co., Ltd., produces and sell lubricants, and Cosmo Petroleum Gas Co., Ltd., purchases and sells liquefied petroleum gas (LPG). In petrochemicals, a growth field, CM Aromatics Co., Ltd., and Cosmo Matsuyama Oil Co., Ltd., are undertaking the manufacture and sales of mixed xylene.

In the year ended March 31, 2007, the petroleum business delivered net sales of ¥2,983.9 billion, up 14.0% from the preceding year, although operating income fell 69.3%, to ¥25.7 billion. While increased revenue from "enhance value-added and rationalization effects" at Cosmo Oil, the establishment of annual production for 300,000 tons of mixed xylene at CM Aromatics, and increased earnings at major subsidiaries such as Cosmo Oil Lubricants and Cosmo Petroleum Gas were positive factors, earnings for the segment declined because of lower inventory valuation gains and reduced refinery operating ratios as well as decreases in sales volume.

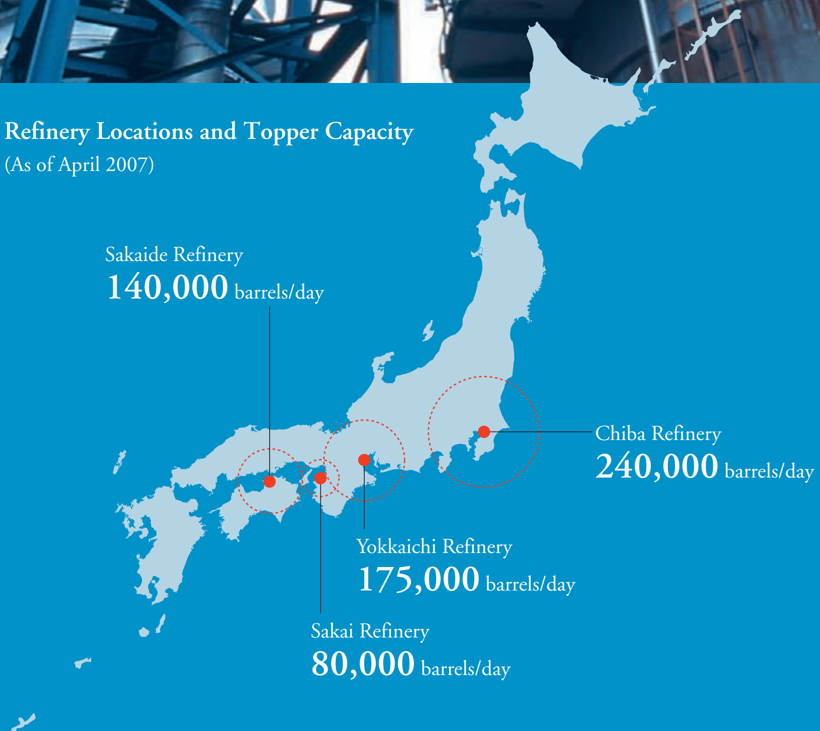




* Stream day (SD) base indicates calculations based on the number of operating days. CD base is calculated using the number of calendar days.

Refinery Locations and Topper Capacity

(As of April 2007)



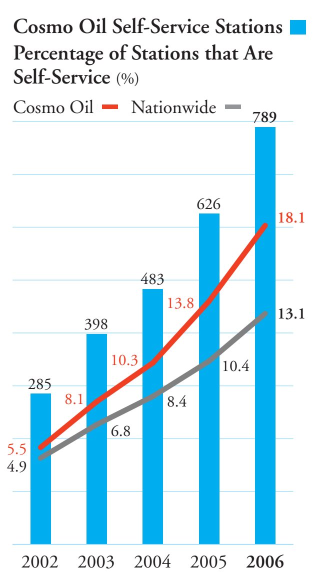
Petroleum Business (Petroleum Sales)

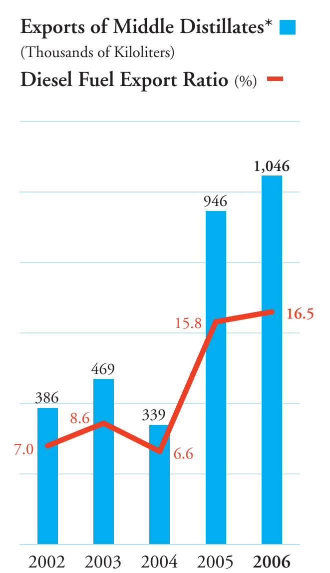
Aggressive Development of Self-Service Stations to Create an Efficient Sales Structure

The Cosmo Oil Group's overall domestic sales of petroleum products dropped 6%, to 27,929,000 kiloliters. Cutbacks in heavy oil demand, warm winter weather and lower refinery operation ratios affected sales. At the same time, sharply higher crude oil prices caused service stations to keep selling prices high, causing gasoline demand to fall and creating a pressing need to respond to these changes in the operating environment.

The Group's basic policy is to strengthen profitability of the petroleum business by increasing the volume weighting of high value-added products such as gasoline and diesel fuel sold through highly profitable sales routes and channels. In order to accomplish this, we emphasized highly profitable regional distributors and actively invested in "self SS" (self-operated service stations) operated by our sales subsidiary, where customer needs are high. We also worked to meet customer demand by enhancing the Auto B-Cle Network, which has a strong infrastructure for providing car-care services, and increased issuance of Cosmo the Card and Cosmo the Card Opus, which encourages repeat visits. In addition, we worked to horizontally develop our regional distributor network by sharing our accumulated expertise in SS operated by our sales subsidiary, as this tactic works to boost the competitiveness of both company- and regional distributor-operated SS. Further, 18.1% of Cosmo Oil's stations were self SS as of March 31, 2007, substantially exceeding the national average of 13.1%. The effective issuance of Cosmo the Card amounts to an industry-leading 2.8 million cards, of which more than 60% are actively used. These results suggest that the cards are an extremely effective tool for cementing customers' affinity for the Group's service stations.

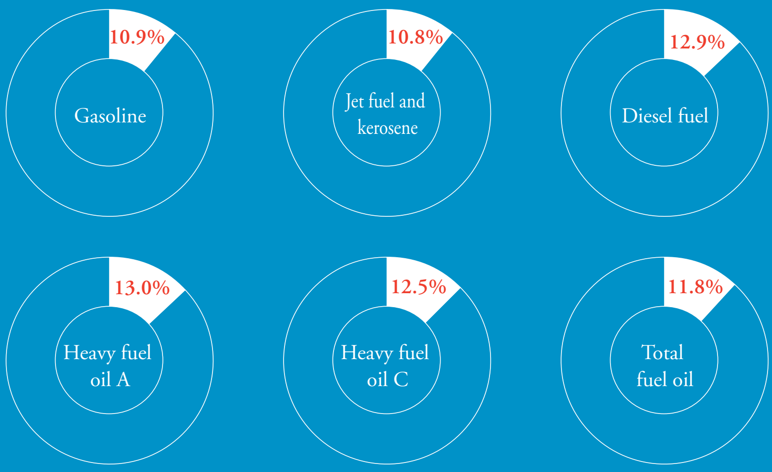
In petroleum product exports, we aggressively cultivated sales channels, particularly in Asia-Oceania. In April 2007, we secured storage tanks on the west coast of the United States, and we began wholesaling products by tanker truck and via pipelines. Behind these efforts was the success of Cosmo Oil's diesel fuel production technologies in clearing the standards set by the California Air Resources Board and the decision to commence marketing on the west coast of the United States. At this stage, we expect these exports to reach between 400,000 and 600,000 kiloliters per year.





Source: Number of service stations registered under the Bill for Ensuring the Quality of Public Works
* Note: Middle distillates include kerosene, jet fuel, diesel fuel

Market Share of Fuel Oil Sales in Japan (Year Ended March 31, 2007)



Research and Development

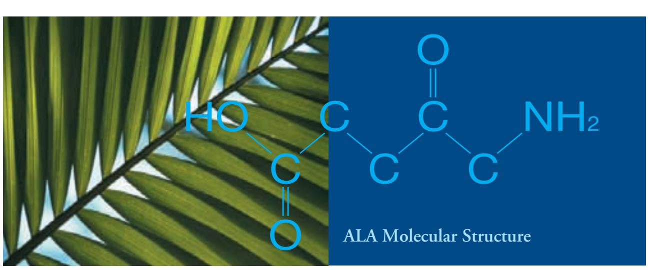
Aiming to Become an Environmentally Advanced Company

New Businesses

The Company is working toward the development of products and technologies that have a low environmental impact, as well as environmental technologies. One result of this focus is our development of the 5-amino leuvulinic acid (ALA) business. In June 2005, we established an ALA business center to begin full-scale development of the ALA business. Like the building blocks of chlorophyll or blood, ALA is an amino acid. ALA promotes photosynthesis, or CO_2 absorption, in plants and enhances their ability to absorb such nutrients as nitrogen.

Focusing on this effect, in December 2004 we established Cosmo Seiwa Agriculture Co., Ltd., as a joint venture with Seiwa Co., Ltd. This venture has begun production and sales of Pentakeep® V, a high-performance fertilizer that contains ALA. In the fiscal year ended March 31, 2006, the venture introduced Penta Garden® in Japan for use in home gardening, and in the year under review Cosmo Seiwa Agriculture succeeded in developing Pentakeep® Super, which it introduced in Japan and Europe. Focusing on the capacity of ALA to promote plant growth, the Group has begun joint testing with local universities in the Middle East and China to determine whether ALA can be used effectively as an ingredient in fertilizer to promote greening and prevent desertification.

We are also considering potential uses of ALA in animal feed, hair tonics and medical substances. We are working with public research institutions and promoting tie-ups with corporate laboratories to turn potential applications into viable businesses.



ALA Molecular Structure

Petroleum Business

In January 2005, Japan's petroleum industry became a global leader in voluntarily providing sulfur-free gasoline and diesel fuel that contains less than 10 ppm of sulfur. The Company's production of sulfur-free diesel fuel began with its participation in the NEDO-PEC* project in fiscal 1999. The highly active diesel fuel desulfurization catalysts that the Company developed during the course of this project led to the extension of diesel fuel desulfurization facilities at all its refineries in fiscal 2004. The process enabled the production of sulfur-free diesel fuel without significant capital investment. In recognition of the successful development and application of catalysts for sulfur-free diesel fuel production, we won the Japan Petroleum Institute Award in May 2005. In March 2006, we also won the Green Sustainable Chemistry Minister of the Environment Award and the Catalyst Society Award (Technology Division), followed by the Industry-University-Government Cooperation Meritorious Service Commendation Minister of the Ministry of Economy, Trade and Industry Prize in June 2006.

* NEDO: New Energy and Industrial Technology Development Organization, an independent government institution

* PEC: Japan Petroleum Energy Center

CSR Management

Corporate Social Responsibility

The Cosmo Oil Group plays an important role in society by providing a stable supply of energy. We increase the convenience of people's daily lives and invigorate industry, and view this symbiosis with society and sustained growth as our mission and responsibility. Fulfilling our mission has two parts: ensuring that the Company derives ongoing economic benefits, while at the same time fulfilling our responsibility to society. Pursuing a balance between these two enables us to respond to the expectations and demands of numerous stakeholders, earn trust and acceptance and link our operations to further business activities, all while increasing our contributions to society. The Group views CSR-based management as the key to raising corporate value through these positive links and contributing to the sustainable development of society.

Directors and Auditors (As of June 28, 2007)

Chairman
Keiichiro Okabe*

President
Yaichi Kimura*

Senior Managing Director
Keizo Morikawa*
(Responsible for Personnel Dept., Sales Control Dept., Retail Marketing Dept., Wholesale Marketing Dept., and Industrial Fuel Marketing Dept.)

Senior Managing Director
Kenji Hosaka*
(Responsible for Corporate Planning Dept., International Ventures Dept., and International Business Dept.)

(* Representative Director)

Note: The Internal Auditing Office reports directly to the President.

Managing Director
Naomasa Kondo
(Responsible for Corporate Communication Dept., Project Development Dept., Safety & Environment Control Dept., and Purchasing Center)

Managing Director
Kaoru Kawana
(Responsible for Information System Planning Dept., Affiliate Relations Dept., and General Affairs Dept.)

Managing Director
Satoshi Miyamoto
(Responsible for Accounting Dept., Finance Dept., and Distribution Dept.)

Managing Director
Seizo Suga
(Responsible for R&D Dept., Demand & Supply Coordination Dept., and Refining & Technology Dept.)

Auditors

Yutaka Shimizu

Makoto Suzuki

Hirokazu Ando**

Hajime Miyamoto**

Yoshitsugu Kondo**

(** Independent Auditor)

Senior Executive Officers

Michio Shimizu
(General Manager, Tokyo Branch Office)

Kanesada Sufu
(General Manager, Affiliate Relations Dept.

Kensuke Suzuki
(General Manager, Corporate Planning Dept.)

Executive Officers

Kiyoshi Aoyagi
(General Manager, General Affairs Dept.)

Tadashi Kanematsu
(General Manager, Chiba Refinery)

Hideto Matsumura
(General Manager, Refining & Technology Dept.)

Atsuto Tamura
(General Manager, Corporate Communication Dept.)

Hisashi Kobayashi
(General Manager, Sales Control Dept.)

Toshiaki Iwana
(General Manager, Yokkaichi Refinery)

Hiroaki Fujioka
(General Manager, Sakai Refinery)

Hirohiko Ogiwara
(General Manager, Wholesale Marketing Dept.)

Satoshi Nishi
(General Manager, Finance Dept.)

Yuji Satake
(General Manager, Retail Marketing Dept.)

Katsuhisa Ohtaki
(General Manager, Industrial Fuel Marketing Dept.)

Isao Kusakabe
(General Manager, International Ventures Dept.)

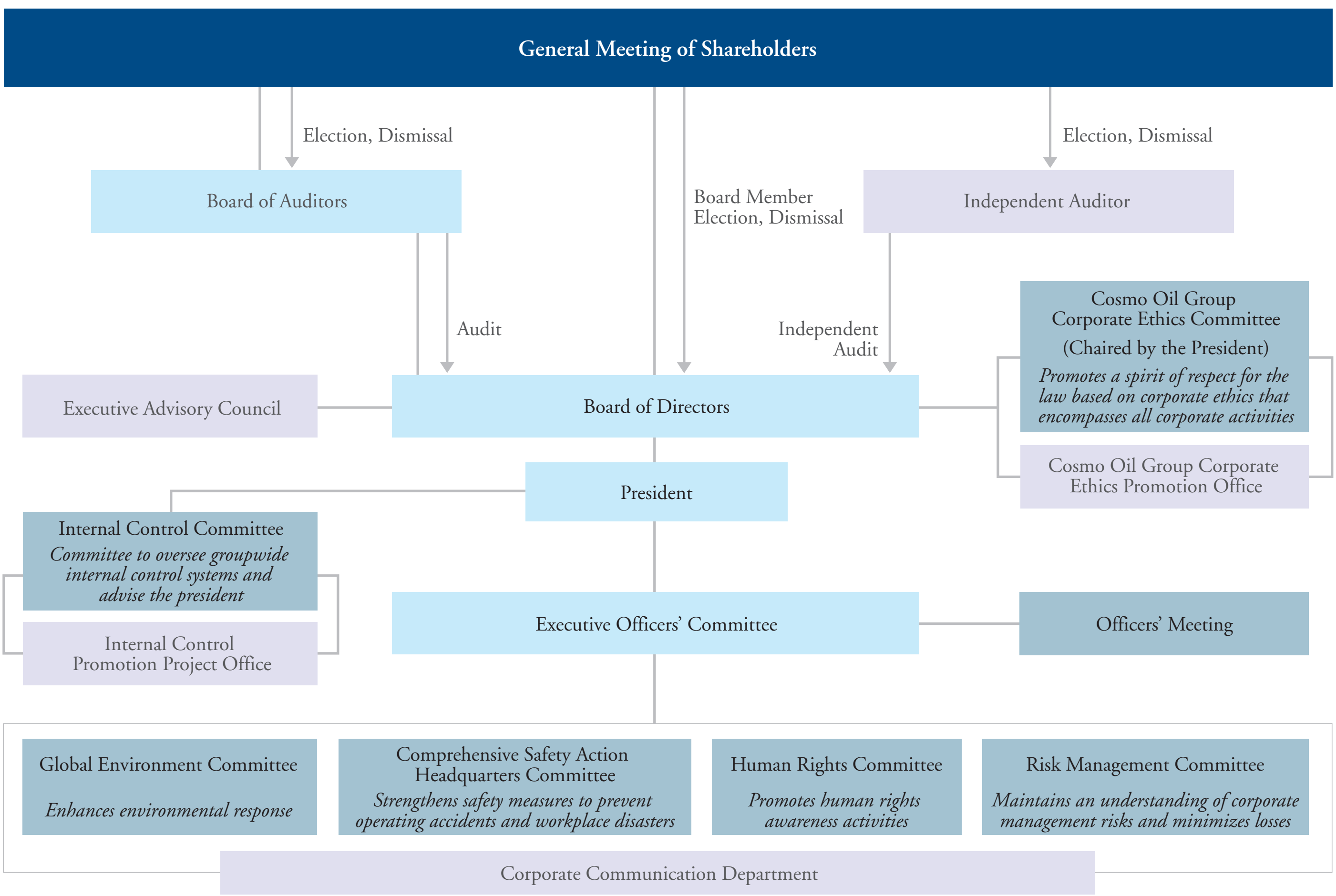
Back row, from left: Satoshi Miyamoto, Naomasa Kondo, Kaoru Kawana, Seizo Suga,
Front row, from left: Keizo Morikawa, Keiichiro Okabe, Yaichi Kimura, Kenji Hosaka

Basic Stance on Corporate Governance

The Cosmo Oil Group's Management Vision sets forth its mission and responsibilities to society. To promote its vision, the Cosmo Oil Group Corporate Activity Guidelines (a corporate code of conduct) describe more specifically how the Group maximizes the satisfaction of stakeholders and all other investors through efforts to raise management transparency and efficiency, to execute business swiftly and to ensure the thorough scrutiny of risk management and compliance.

These initiatives are aimed at maximizing shareholder value by enhancing corporate governance.

Corporate Governance Organization Chart (As of June 28, 2007)



Corporate Governance Structure, Measures and Implementation Status

The Company employs a corporate auditor, within which the Board of Directors, Executive Officers' Committee and Executive Advisory Council have been established. These entities handle separate functions—management decision-making and supervision, execution of duties and evaluation of director performance. Auditors enhance their management supervisory function by attending meetings of the Board of Directors and Executive Officers' Committee and other important meetings. In addition, outside corporate auditors are employed for their ability to provide a check from an outside perspective, adding rigor to the Group's management supervisory structure.

The Group employs an executive officer system to clearly separate management supervision from business execution, as well as to enable swifter response to changes in the operating environment. In tandem with this system, an Officers' Meeting was established under the Executive Officers' Committee to expedite business and enhance the companywide sharing of information.

● Board of Directors (meets once a month in principle)

The Board of Directors, which is led by the chairman, holds regular meetings attended by all directors and auditors. As the top management decision-making authority, as stipulated in the Board of Directors' regulations, the Board makes important decisions on issues related to laws, regulations and items prescribed in the Articles of Incorporation. The Board also establishes management policy and supervises the business activities of the directors.

● Executive Officers' Committee (meets once a week in principle)

The Executive Officers' Committee, chaired by the president, meets once a week, as stipulated by Executive Officers' Committee's regulations. Directors, executive officers designated by the president and auditors attend these meetings. This committee serves as an institution for making decisions concerning the execution of business and deliberates fundamental directions and important items in accordance with management policy determined by the Board of Directors.

● Executive Advisory Council (meets as needed)

Established to separate its function from the Board of Directors, this entity evaluates the performance of directors and deliberates on the selection of candidates for director, executive officer and auditor.

● Officers' Meeting (meets once a month in principle)

In line with the June 2006 introduction of an executive officer system, the Officers' Meeting was established below the Executive Officers' Committee to ensure the expeditious execution of business and to enhance the companywide sharing of information.

● Board of Auditors (meets once a month in principle)

The Board of Auditors comprising the Company's auditors, by attending Board of Director and Executive Officers' Committee meetings, supervises the business activities of Board members and executive officers, and in addition seeks to provide appropriate and sufficient auditing through meetings to coordinate and communicate with outside accounting auditors, the internal audit organization and affiliated company auditors.

The Company has five auditors, three of whom are outside corporate auditors. Furthermore, full-time staff members have been assigned to work with auditors, including outside corporate auditors, with the aim of enhancing the audit function.

Of these auditors, Yoshitsugu Kondo is a partner attorney at Sano Kondo Law Offices, with which the Company has a legal advisory contract. As Mr. Kondo was determined as having sufficient judgment to oversee corporate management as a result of his extensive familiarity with corporate law, he was chosen as one of the Company's outside auditors. Hirokazu Ando was formerly the executive officer and general manager of the management planning division of UFJ Holdings Inc., and Hajime Miyamoto is Chairman of Kansai International Airport Co., Ltd. These people were judged appropriate to perform the duties of outside corporate auditors because of their wide-ranging experience in their fields, and were therefore selected as outside corporate auditors. There are no particular conflicts of interest between these individuals and the Company. Between April 2006 and March 2007, the Board of Directors met 21 times and the Board of Auditors convened 17 times. Hirokazu Ando attended all of the meetings. Hajime Miyamoto attended 50% of the Board of Directors' meetings and 60% of the Board of Auditors' meetings, and Yoshitsugu Kondo attended 90% of each of the Board of Directors' and Board of Auditors' meetings since assuming his post in June 2006.

Internal Audit Status

The Internal Auditing Office, with 11 full-time staff, constitutes the Company's internal compliance organization. The office performs internal audits according to predefined annual audit plans and confers with the Executive Officers' Committee in accordance with the plans. The office conducts audits of the legality and efficiency of internal business activities at the Company and Group subsidiaries and offers specific advice and recommendations for improving these operations. In addition, the office submits audit reports to senior management, the Executive Officers' Committee and auditors, exchanges opinions with auditors and works to internally enhance audit functions. In particular, the office exchanges opinions with auditors regarding audit plans and holds periodic audit liaison meetings to exchange opinions on audit-related topics.

Status of Accounting Audits

The Company employs KPMG AZSA & Co. as its independent accounting auditor in accordance with the Company Law and the Securities and Exchange Law. Performing the Company's accounting audits were Takaya Abe, Naoto Yokoi and Hironori Iwamoto, three certified public accountants assigned by KPMG AZSA. These auditors exchange opinions with the Company's auditors, who also assist the independent auditors in their activities. In addition, five certified public accountants, six assistant accountants and two others participated in the audit activities.

Implementation Status of Initiatives to Enhance Corporate Governance

Implementation of an Executive Officer System

In June 2006, the Group implemented an executive officer system to clarify the division between management supervision and business execution and ensure rapid response to changes in the operating environment. Executive officers are selected by resolution of the Board of Directors and execute business delegated to them by the Board. The president holds ultimate responsibility for the activities of the executive officers, whose term of office is limited to one year. The Officers' Meeting was established below the Executive Officers' Committee to promote the execution of business by enhancing the companywide sharing of information.

Changes from the Implementation of an Executive Officer System

In line with the implementation of an executive officer system, the number of directors was reduced from 30 to 15. To clarify the business performance management responsibilities of directors and create a management system that responds quickly to changes in the operating environment, the term of office for directors was shortened from two years to one. Another change, the abolition of the Associate Director system, occurred in June 2006.

Stipulated Action Guidelines

The Cosmo Oil Group Corporate Action Guidelines clearly delineate the Group's social responsibilities to each type of stakeholder, and these guidelines are shared throughout the Group. Furthermore, we publicize these activities by conducting briefing sessions once a year for all employees on the themes of corporate ethics and human rights.

Environmental Protection and CSR Initiatives

The Cosmo Oil Group has established compliance, people and the environment as the cornerstones of its social responsibility, and develops related activities in line with its management philosophy. In fiscal 2005, we formulated a new three-year Consolidated Medium-Term CSR Management Plan that sets five key targets: 1) improving the awareness of CSR, 2) reinforcing risk management and internal audit functions, 3) taking a sophisticated approach to the environment, 4) strengthening safety control and 5) protecting human rights and implementing personnel-related measures. Through this plan, we have voluntarily established targets for each Cosmo Oil Group company and business site, with objectives tailored to the operational characteristics and tasks of each business sector. Cosmo Oil is an environmentally advanced Group, and its consolidated three-year Medium-Term Environmental Plan that began in fiscal 2005 sets particularly high targets for energy conservation and preservation of the Earth through its first overriding theme, which is the reduction of environmental impact. The second theme, creating future value, calls for the Company to take a proactive approach to environmental contribution activities and environmental communications, and we are pursuing groupwide efforts in this regard.

Internal Control System Initiatives

Basic Stance on Internal Control Systems

We are creating a number of systems to implement the Group's management vision and corporate action guidelines and ensure the proper and efficient execution of tasks. These include a system for the execution of duties by directors and employees, risk management and internal auditing systems to support this execution, and a system to ensure the effectiveness of audits conducted by corporate auditors.

Internal Control System Implementation Status

To achieve our management vision, we have established the Cosmo Oil Corporate Ethics Committee, which reports directly to the Board of Directors and is chaired by the president. Assisting this committee is the Cosmo Oil Group Corporate Ethics Promotion Office. The Ethics Committee works to ensure that all corporate activities are conducted with a law-abiding spirit and a sound sense of ethics, based on the Cosmo Oil Group Corporate Activity Guidelines.

To encourage a pervasive orientation toward compliance, the Company issues a Cosmo Oil Group Management Vision Card to each employee. It also conducts training on corporate ethics.

The Internal Control Committee, which serves as an advisory committee to the president, takes overall responsibility for the organization of the Group's internal control system. Assisted by the Internal Control Promotion Project Office, the Internal Control Committee formulates and evaluates internal control systems for the Group. We have created various bodies, chaired by directors, to reinforce preventive measures targeting operational accidents and workplace injuries, enhance environmental measures, promote activities to encourage respect for human rights, and to fully comprehend the risks to corporate management in order to minimize losses if such risks materialize. These committees, which report directly to the Executive Officers' Committee, are the Comprehensive Safety Action Headquarters Committee, the Global Environment Committee, the Human Rights Committee, the Risk Management Committee, and the Executive Officers' Committee. Various Company departments assist these committees. The Corporate Communications Department takes overall control and fosters a focused and aggressive groupwide approach to these issues.

A corporate ethics helpline is in place to protect the anonymity of whistleblowers and protect them from potential backlash. The consultation desk in the Customer Center performs a similar function and provides opportunities to elicit and employ a wide range of information from within and outside the Company.

In addition, Board of Directors' regulations and information management regulations form the internal regulatory backbone for information management. These regulations define the appropriate storage and management of information pertaining to the execution of duties by directors.

Director and Auditor Compensation

During the fiscal year under review, executive compensation paid to directors and auditors and the compensation paid to the Company's audit corporation was as follows.

● **Executive compensation**

Compensation, other payments to eight directors	¥332 million
Compensation paid to five auditors	90 million
(Of which amount paid to three independent auditors)	40 million
Total	¥423 million

Note: Payments to directors exclude the employee portion of bonuses paid to directors who are also employees.

● **Auditor compensation**

Compensation for audit verification	¥58 million
Compensation for activities other than the above	30 million
Total	¥88 million

Note: This compensation is as stipulated in Paragraph 1, Article 2, of the Certified Public Accountants Law.

Revisions to the Executive Compensation System

In June 2006, the Group revised its executive compensation system to more clearly reflect responsibility for management performance and to increase fairness and transparency.

(1) Abolishment of the Executive Retirement Allowance System

The system of providing executive retirement bonuses that do not reflect operating performance was abolished as of the end of the Ordinary General Meeting of Shareholders in June 2006, and executive compensation was consolidated.

(2) Implementation of the System for Executive Compensation Linked with Operating Performance, and Establishment of Share Acquisition Guidelines

In line with the abolishment of the executive retirement allowance system, a system of compensation linked with operating performance was implemented, so that compensation for directors and executive officers would clearly reflect operating performance over a period of time. In addition, share acquisition guidelines were established to increase the motivation to work toward long-term increases in shareholder value.

(3) Implementation of an Operating Performance-Linked Bonus System

The New Consolidated Mid-Term Management Plan and consolidated net income target are the standards for determining bonuses for directors and executive officers.

Environmental Cooperation and Contributions in Fiscal 2007

In addition to practicing sincere management through corporate governance and compliance initiatives, the key aspects of CSR are contributing to society as a corporate citizen and raising our brand value by becoming an attractive company for all stakeholders. The Cosmo Oil Group's social contributions and environmental cooperation activities are based on the philosophy of originality, participation by Group employees and long-term continuity, regardless of the Group's financial performance.

Activities for Children, the Environment and Society, and Pronouncement of Environmental Messages

As the Cosmo Oil Group's business is closely related to the automobile society, Cosmo Oil has sponsored the Cosmo Waku Waku Camp every year since 1993 as one of its social contribution activities. This program helps elementary school students who have lost their parents in traffic accidents to experience nature.

Since 2002, through the Cosmo Children's Earth School we have conducted various experiential programs centered on seeing, sensing, creating and learning. This school conducts programs to encourage healthy development and foster environmental awareness among children.

As part of these efforts, in fiscal 2006 we sponsored the Nature Art Workshop for Children Earth Cinema led by film director Maikke Kantola. Ms. Kantola hails from Finland, which is globally recognized for its advanced environmental efforts. During the year, we also continued Cosmo Painting Kids, an art therapy program established in 2004 to encourage communication with children living in foster homes.

14th Cosmo Waku Waku Camp
Our Cosmo Children's Earth School environmental education program provides children the opportunity to experience nature firsthand and encourages them to think about the environment.

Cosmo Oil Eco Card Fund

We are now in the sixth year of Living with Our Planet projects, which are funded by annual ¥500 contributions from approximately 86,000 members who use Cosmo the Card "Eco" and Cosmo the Card Opus "Eco" credit cards at Cosmo Oil service stations. Cosmo Oil adds its own contributions and operates the Cosmo Oil "Eco" Card Fund. Going beyond the corporate framework to become an environmental citizen, we join customers, and members of NGOs and NPOs, local societies and governments in global environmental contribution activities that work toward a sustainable society. With the theme of "stop global warming," which is the environmental issue most closely linked with oil, Cosmo Oil is working to support the sustainable development of regions (emerging nations, etc.) expected to be the most affected by rising CO_2 emission and the impact of global warming, and to educate children, who will be the future stewards of this Earth, about the environment.

In April 2006, Cosmo Oil began a program to cultivate saplings near the city of Furano, Hokkaido, to foster environmental education and awareness and provide seedlings for forestation programs. This program is known as the Seedlings for Forestation Land Provision Project (more informally, the "Seedling Project"). The project aims to encourage the recovery of sustainable forests that regenerate the environment without human intervention. In addition to cultivating and providing seedlings grown in this region, the program includes environmental education and awareness activities as opportunities for people to contemplate their interconnectedness with the environment.

Seedlings for Forestation Land Provision Project
(From Year Ended March 31, 2006)
Located near the city of Furano, Hokkaido, this program conducts environmental education activities, such as helping to regenerate endemic forests. The program's slogan is "Planting seeds for the heart and the atmosphere." The saplings that are grown from seeds in this program are transplanted nearby.

South Pacific Nations Support Project
(From Year Ended March 31, 2004)
This project supports environmental preservation activities. In the Republic of Kiribati, which is facing a crisis due to the rising sea level, we planted mangroves to prevent the coastline from being eroded.

Financial Section

Consolidated 11-Year Summary

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

	1997	1998	1999	2000	2001
For the Year:					
Net sales	¥1,729,495	¥1,680,478	¥1,443,457	¥1,584,678	¥1,845,842
Petroleum	N.A.	N.A.	N.A.	N.A.	N.A.
Oil exploration and production	N.A.	N.A.	N.A.	N.A.	N.A.
Other	N.A.	N.A.	N.A.	N.A.	N.A.
Cost of sales	1,508,186	1,473,349	1,265,443	1,427,640	1,664,757
Selling, general and administrative expenses	185,900	179,228	155,154	140,373	144,503
Operating income	35,409	27,901	22,860	16,665	36,582
Inventory valuation gain (loss)	N.A.	N.A.	N.A.	N.A.	13,800
Operating income excluding the impact of inventory valuations	N.A.	N.A.	N.A.	N.A.	22,782
Net income (loss)	8,839	5,340	839	4,841	8,674
Depreciation and amortization	35,738	34,228	21,773	23,436	24,672
Capital expenditures	31,021	34,175	31,325	22,593	17,108
Research and development costs	N.A.	N.A.	N.A.	4,567	3,566
Cash flows from operating activities	(25,553)	64,558	17,718	(42,698)	58,824
Cash flows from investing activities	13,972	(59,532)	(17,806)	13,538	27,348
Cash flows from financing activities	2,065	(5,295)	(14,592)	31,271	(87,229)
At Year End:					
Total assets	1,287,172	1,277,022	1,229,285	1,294,843	1,319,960
Shareholders' equity	189,790	190,716	186,496	179,536	177,773
Interest-bearing debt	654,233	652,769	641,562	687,563	610,686
Amounts per Share:					
Net income (loss) per share	¥ 13.99	¥ 8.45	¥ 1.33	¥ 7.76	¥ 13.81
Shareholders' equity per share	300.44	301.91	295.23	286.75	282.09
Cash dividends	8.00	8.00	6.00	6.00	6.00
Ratios:					
Return on Assets (ROA) (%)	0.7	0.4	0.1	0.4	0.7
Return on Equity (ROE) (%)	4.7	2.8	0.4	2.6	4.9
Interest-bearing debt ratio (%)	50.8	51.1	52.2	53.1	46.3
Debt-to-Equity ratio (Times)	3.4	3.4	3.4	3.8	3.4

Notes: 1. U.S. dollar amounts in this report have been translated, for convenience only, at the exchange rate of ¥118.05=US$1.00, the prevailing rate at March 31, 2007.
2. Effective fiscal 2003, the Company adopted a new standard for earnings per share; prior year figures have not been restated.
3. The gross average method was adopted as the inventory valuation method from fiscal 2001.
4. The Company began reporting R&D expenses from fiscal 2000.
5. From the fiscal year ended March 31 2007, shareholders' equity is expressed as total net assets minus minority interest.

					Millions of yen	Thousands of U.S. Dollars
2002	2003	2004	2005	2006	2007	2007
¥1,813,838	¥1,902,768	¥1,916,278	¥2,154,559	¥2,670,628	¥3,062,744	$25,944,464
1,746,659	1,830,940	1,862,554	2,104,737	2,616,887	2,983,900	25,276,578
10,856	9,773	12,950	11,544	17,030	31,905	270,267
56,323	62,055	40,774	38,278	36,711	46,939	397,619
1,659,438	1,754,853	1,758,858	1,956,160	2,422,272	2,852,242	24,161,304
132,343	123,748	132,174	132,701	137,108	140,859	1,193,215
22,057	24,167	25,246	65,698	111,248	69,643	589,945
(9,000)	17,300	(9,500)	12,600	45,400	2,800	23,719
31,057	6,867	34,746	53,098	65,848	66,843	566,226
(5,190)	3,426	8,179	26,415	61,795	26,536	224,786
23,492	22,843	23,632	24,927	28,313	29,246	247,742
25,430	24,132	36,573	30,113	31,762	36,126	306,023
3,805	3,867	3,558	3,635	3,483	3,753	31,792
76,646	(26,975)	101,827	40,494	(20,685)	25,005	211,817
(13,944)	(12,811)	(32,709)	(36,577)	(1,348)	(35,868)	(303,837)
(88,546)	10,127	(7,679)	(70,163)	39,608	80,023	677,874

1,242,171	1,246,730	1,260,092	1,323,149	1,463,579	1,579,156	13,377,010
194,303	193,595	204,806	227,897	312,504	339,701	2,877,603
548,653	562,649	559,259	497,804	522,430	609,890	5,166,370

					Yen	U.S. Dollars
¥ (8.24)	¥ 5.42	¥ 12.95	¥ 41.73	¥ 94.54	¥ 39.54	$0.33
308.65	306.67	324.43	360.93	465.48	506.15	4.29
6.00	6.00	6.00	8.00	10.00	8.00	0.07

—	0.3	0.7	2.0	4.4	1.7	—
—	1.8	4.1	12.2	22.9	8.0	—
44.2	45.1	44.4	37.6	35.7	38.6	—
2.8	2.9	2.7	2.2	1.7	1.8	—

Operating Environment

During fiscal 2007, ended March 31, 2007, the Japanese economy was affected by lackluster personal consumption levels, although exports were firm and corporate earnings were robust. As a result, capital expenditures increased, sustaining the economy's extended period of growth. In the United States, both capital expenditures and personal consumption were favorable; Europe staged a brisk economic recovery; and Asian economies—fueled by robust growth in China—continued to grow. Consequently, the global economy remained on an expansionary curve.

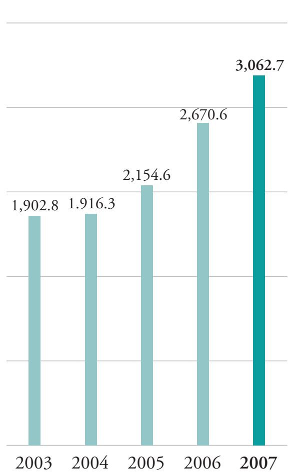
At the beginning of the fiscal year, crude oil prices were about $61/barrel for Dubai crude, but Israel's invasion of Lebanon and various international issues in oil-producing nations, such as nuclear development in Iran and insurgency in Nigeria, caused oil prices to rise further, reaching $72/barrel in July 2006. Thereafter, such factors as concern of a slowdown in the U.S. economy and unseasonably warm winter weather allowed oil prices to ease, but a wave of cold weather that swept the United States from February 2007 and OPEC's decision to curtail production caused a resurgence in oil prices, which ended the fiscal year at around $63/barrel. Consequently, the average oil price during the fiscal year came to around $60/barrel, up approximately $7/barrel from the preceding fiscal year.

In the foreign exchange market at the beginning of fiscal 2007, the yen was trading at ¥118 per U.S. dollar, but uncertainty about U.S. economic conditions led to a period of yen depreciation against the U.S. dollar before it returned to its previous level. Yen selling from October pushed the yen back down to around ¥122 per U.S. dollar in February. However, a global downturn in stock prices halted excessive yen selling, bringing the currency back to around ¥118 per U.S. dollar at the end of the fiscal year.

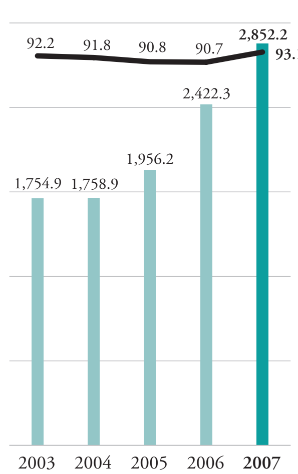
Overall domestic demand for petroleum products decreased year on year. Soaring gasoline prices prompted a rise in more energy-efficient vehicles and increased energy conservation. Also, unusually warm winter weather and a shift toward other energy sources caused a sharp decline in demand for kerosene and heavy fuel oil A. Similarly, demand for diesel fuel fell, owing to efficiency improvements in the shipping industry. In Japan, petroleum product prices rose, with the oil industry increasing prices at service stations and on fuel oil for industrial use in a bid to keep pace with record-high crude oil prices.

In the second half of the fiscal year, however, crude oil prices softened as a result of easing tensions in the Middle East, as well as warm winter weather, which slowed demand for such mainstay oil products as gasoline and kerosene.

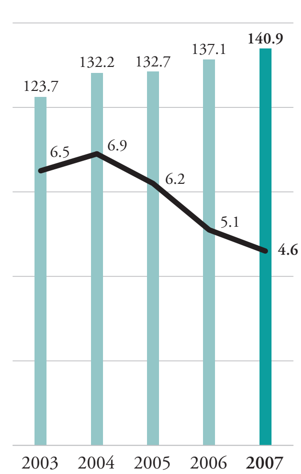
Net Sales
(Billions of Yen)



Cost of Sales
(Billions of Yen)
Cost of Sales Ratio (%)



SG&A Expenses
(Billions of Yen)
SG&A Expenses Ratio (%)



Overview of the Fiscal Year

Net Sales

During the fiscal year ended March 31, 2007, consolidated net sales came to ¥3,062.7 billion, up ¥392.1 billion, or 14.7%, from the preceding fiscal year. Domestic demand for petroleum products fell 6%, or 1,790,000 kiloliters, to 27,919,000 kiloliters. Sales of heavy fuel oil, in particular, were affected by the shift to alternative energy sources, owing to growing environmental consciousness, coupled with rising crude oil prices, which caused a drop-off in demand. Although overseas demand was robust for sulfur-free diesel fuel, which contains sulfur in quantities of 10 ppm or less, total sales volume fell 3.7%, or 1,697,000 kiloliters, to 44,617,000 kiloliters. Despite this decline in sales volume, higher selling prices reflected the rise in crude oil prices, prompting an increase of 14.0%, or ¥367.0 billion, in sales of this product, to ¥2,983.9 billion.

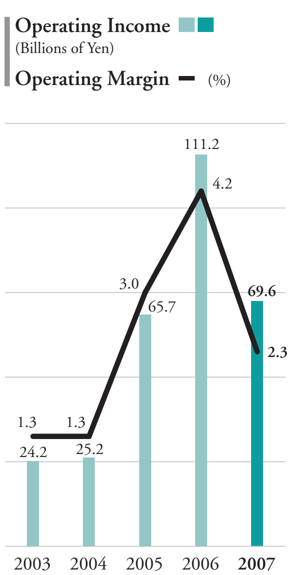
In the Oil Exploration and Production segment, Qatar Petroleum Development Co., Ltd., began commercial production in March 2006, and Abu Dhabi Oil Co., Ltd., continued its stable production of crude oil. These factors, plus the rise in crude oil prices, engendered a ¥14.8 billion, or 87.3%, increase in segment sales, to ¥31.9 billion.

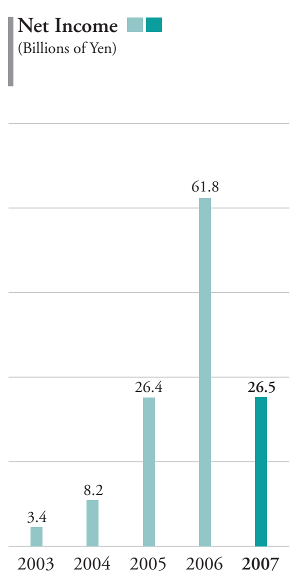
Note: Net sales exclude inter-segment sales.

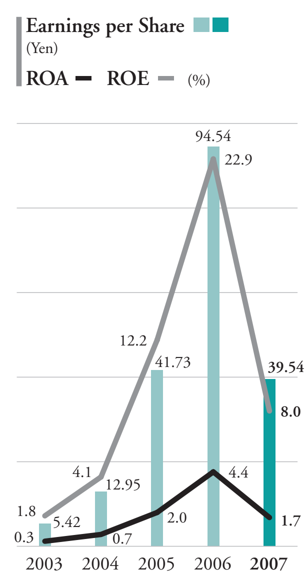
Operating Income

During the year, operating income dropped 37.4%, or ¥41.6 billion, to ¥69.6 billion, as cost of sales rose 17.8% to ¥2,852.2 billion. The primary cause of this increase was a difference in the valuation of inventories using the gross average method, which generated a ¥45.4 billion gain on inventory valuation in the preceding term, but a ¥2.8 billion valuation loss in fiscal 2007. Absent this effect, operating income would have risen 1.5%, or ¥1.0 billion, to ¥66.8 billion.

Major factors that contributed to earnings fluctuations in the petroleum business were rationalization measures enacted in accordance with our “New Consolidated Mid-Term Management Plan,” which contributed ¥1.5 billion, and value-added enhancement measures, which added ¥3.8 billion—essentially as planned. Higher earnings by consolidated subsidiaries that manufacture such products as petrochemicals, petroleum gas and lubricating oil also enhanced consolidated operating income. An accidental fire at our Chiba refinery in April 2006 necessitated the temporary suspension of operations, lowering our refinery utilization ratio for the year and resulting in additional costs from domestic spot market procurement of petrochemical products as well as product imports. This situation had a ¥14.7 billion negative impact on earnings. Although we worked assiduously to improve the demand–supply balance by promoting exports and domestic prices improved for our four key







products—gasoline, kerosene, diesel fuel and heavy fuel oil A—we suffered from the time lag between cost rises and price hikes. The spread between selling prices of naphtha and heavy fuel oil C and the cost of crude oil worsened, whereas refining costs (in-house fuel consumption costs) rose. As a result of these factors, operating income in the Petroleum business decreased 69.3%, to ¥25.7 billion. Operating income in the Oil Exploration and Production segment, however, surged ¥14.1 billion, or 48.2%, to ¥43.5 billion.

Selling, general and administrative expenses rose 2.7%, to ¥140.9 billion, but successful rationalization and efficiency improvement efforts caused the operating income to total sales ratio to improve 0.5 percentage point, to 4.6%. The operating margin, on the other hand, fell 1.9 percentage points, to 2.3%, owing to the loss on inventory valuations. (This effect results when rising crude oil prices cause unit inventory costs for the period to decline from their level at the beginning of the term.)

Other Income (Expenses)

Other income (expenses) decreased ¥7.5 billion, to a net surplus of ¥1.6 billion. A ¥4.6 billion decline in interest and dividend income, to ¥1.8 billion, was the primary cause.

On the other hand, equity in earnings of affiliates remained favorable, rising ¥0.3 billion, to ¥9.9 billion. Equity-method affiliate Maruzen Petrochemical Co., Ltd., generated higher income, reflecting strong prices on petrochemical products. United Petroleum Development also reported steady petroleum production and sales volume.

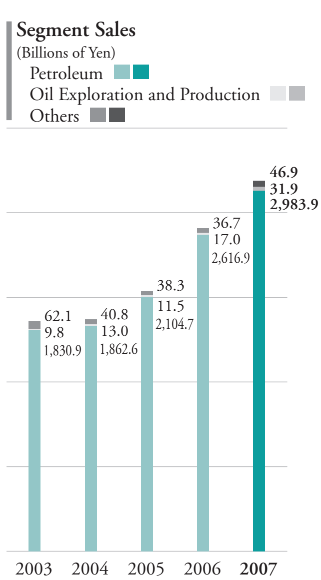
During the year, the Company posted ¥2.4 billion in impairment losses on fixed assets for land that became idle as the result of service station closures and oil storage depot abandonment. In addition, ¥1.8 billion in losses were recorded on the sale and liquidation of fixed assets related to service station closures and the retirement of refinery equipment.

Net Income

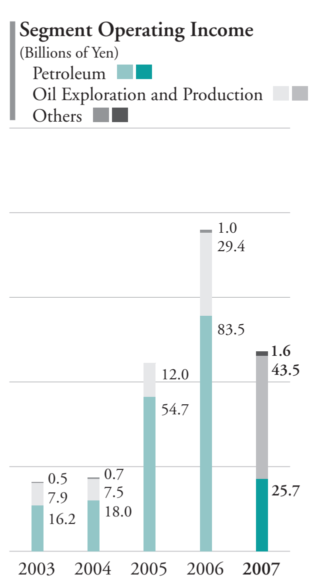
Income before income taxes and minority interests fell ¥49.2 billion, or 40.8%, to ¥71.2 billion. In terms of income taxes, corporate, residence and other business taxes came to ¥37.2 billion, while deferred income taxes amounted to ¥1.5 billion. The Group's tax burden declined ¥16.6 billion, compared with the preceding term, to ¥38.7 billion. The Group's effective tax rate was 54.3%, after the application of tax-effect accounting.

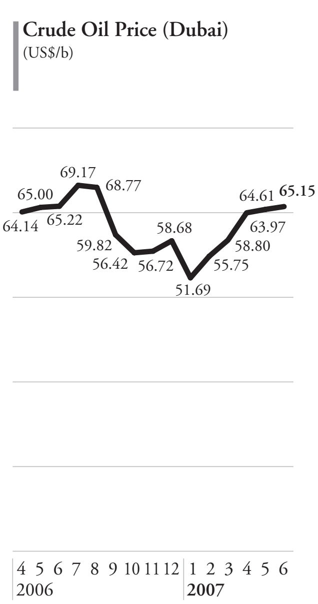
After adjusting for income taxes of ¥38.7 billion and minority interests of ¥6.0 billion, consolidated net income came to ¥26.5 billion, down ¥35.3 billion, or 57.1%.

Return on total assets (ROA) fell 2.7 percentage points, to 1.7%. Return on shareholders' equity (ROE) dropped 14.9 percentage points, to 8.0%.



Excludes inter-segment sales.





Segment Information

Petroleum

During the year, net sales in the Petroleum segment rose ¥367.0 billion, or 14.0%, to ¥2,983.9 billion. By volume, fuel oil sales decreased 1,697,000 kiloliters, to 44,617,000 kiloliters, but the selling price rose ¥9,340/kiloliter, to ¥52,250/kiloliter, generating the sales increase.

A fire in our Chiba refinery caused our refinery utilization ratio to decrease and resulted in additional costs from domestic spot market procurement of petrochemical products as well as product imports. Domestic sales of fuel oil decreased overall. Sales of jet fuel rose 42.5%, but a shift to other types of fuel resulted in a 15.0% decline in sales of heavy fuel oil C for such uses as power generation. Sales of heavy fuel oil A decreased 15.9%. In addition to significant declines in heavy fuel oil sales, sales of gasoline and diesel fuel dropped 2.1% and 1.0% respectively. Affected by unseasonably warm winter weather, sales of kerosene dropped 17.3%.

Conversely, export sales expanded 8.6%, to 1,046,000 kiloliters. The Group worked to boost exports of sulfur-free diesel fuel to Australia and the west coast of the United States and strove to maximize its sales margins through effective allocation to business partners.

In addition, we promoted the rationalization and value-added enhancement measures outlined in our New Consolidated Mid-Term Management Plan and enacted export initiatives. In addition, the effect of inventory valuations was reversed from the preceding year. As a result of these factors, segment operating income declined ¥57.9 billion, or 69.3%, to ¥25.7 billion.

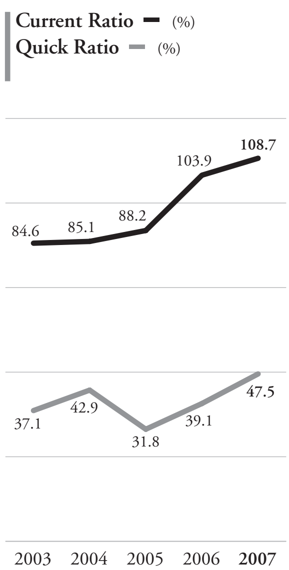
Oil Exploration and Production

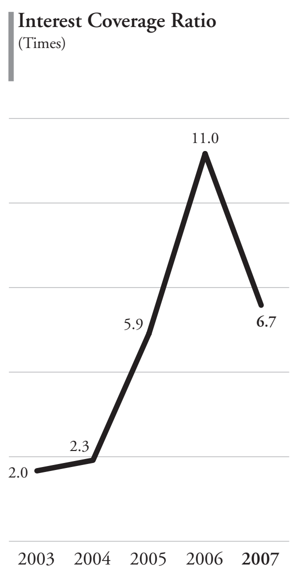
In Oil Exploration and Production, Qatar Petroleum Development Co., Ltd., began commercial production in March 2006, at a time when crude oil prices had reached a plateau. In addition, Abu Dhabi Oil Co., Ltd., continued its stable production of crude oil. As a result, sales in this segment expanded ¥14.8 billion, or 87.3%, to ¥31.9 billion, and operating income surged ¥14.1 billion, or 48.2%, to ¥43.5 billion.

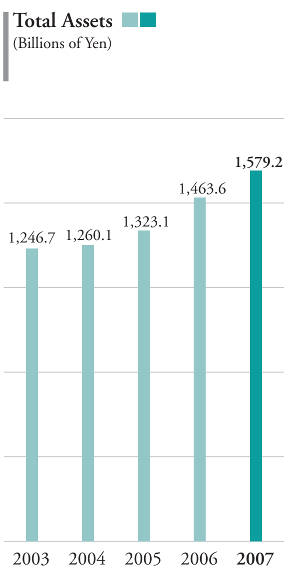
Higher sales and income at Abu Dhabi Oil Co., Ltd., also contributed to these results, as the company benefited from yen depreciation from ¥109.1 to the U.S. dollar at the start of the year to ¥116.5 to the U.S. dollar at the end, as well as a rise in crude oil prices from $52.7/barrel in the preceding term to $64.7/barrel in the fiscal year under review.

Others

The Others business segment conducts such business as the purchase, sale and rental of real estate; the construction and leasing of petroleum-related facilities; and insurance operations.







During the year, the Group continued working to rationalize and improve the efficiency of operations. Segment net sales consequently rose ¥10.3 billion, or 27.9%, to ¥46.9 billion, and operating income grew ¥0.6 billion, to ¥1.6 billion.

Sources of Liquidity and Funds

In the Group's main petroleum business, a noticeable lag exists between the import of crude oil and the receipt of funds from the sale of petroleum products, as the transportation of crude oil requires a significant amount of time. Also, the Group must maintain reserves equivalent to 70 days of domestic sales volume. Thus, as an import-focused entity in the petroleum industry, the Group is significantly affected by fluctuations in exchange rates and domestic selling prices. The Group engages in forward foreign exchange contracts to hedge this risk.

During the year, the Group increased its short-term borrowings to provide additional working capital to import crude oil, as prices on this commodity rose. Also, a corporate bond issue matured in fiscal 2007, and the Group raised funds to enable early loan repayment. Consequently, interest-bearing debt rose ¥87.4 billion during the year, to ¥609.9 billion.

As the Group plans strategic capital expenditures under the New Consolidated Mid-Term Management Plan, it will flexibly raise funds based on market trends, while optimizing its balance sheet to ensure financial robustness and the ability to invest strategically.

Financial Position

Assets

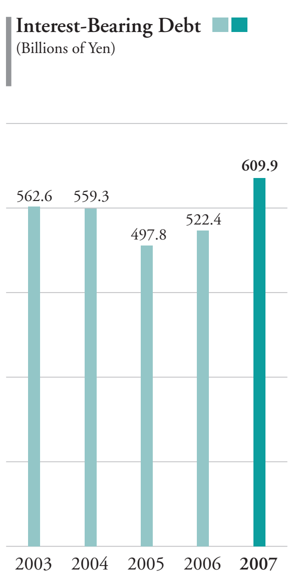
As of March 31, 2007, total assets stood at ¥1,579.2 billion, up ¥115.6 billion, or 7.9%, from one year earlier. Principal reasons for the increase in current assets included the fact that the end of the fiscal year fell on a banking holiday, which resulted in higher receivables. Cash and deposits were 48.5% higher, owing to our advance fund-raising activities, and notes and accounts receivable, trade, were up 28.1%, to ¥292.0 billion.

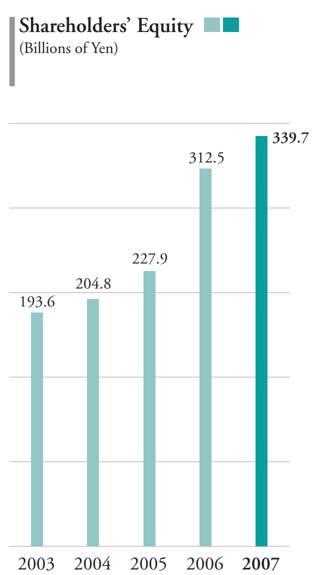
Property, plant and equipment at year-end totaled ¥528.3 billion, down ¥4.7 billion, or 0.9%, from one year earlier. The Group disposed of a portion of its property at the Sakaide refinery in line with the construction of the Sakaide LNG terminal, causing a ¥6.6 billion, or 2.1% decrease in land holdings.

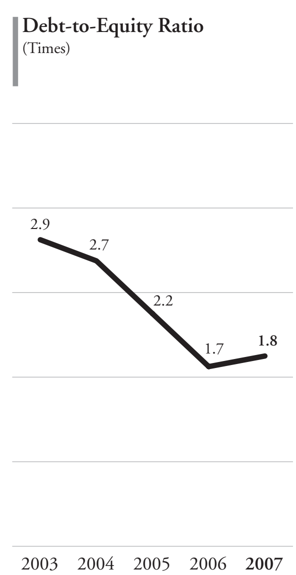
Investments in securities rose ¥9.6 billion, or 9.8%, to ¥107.9 billion. This increase is the result of the Group's decision to invest in Laffan Refinery Co., Ltd., in Qatar, as well as increased investments in equity-method affiliates.

Liabilities and Shareholders' Equity

Total current liabilities on March 31, 2007, were ¥811.8 billion, up ¥78.4 billion, or 10.7% from one year earlier. As with total assets, the Group raised its short-term debt ¥76.8 billion to increase working capital for crude oil imports as crude oil prices







rose. Consequently, interest-bearing debt grew ¥87.5 billion, or 16.7%, to ¥609.9 billion. The interest-bearing debt ratio worsened 2.9 percentage points, from 35.7% to 38.6%. Net interest-bearing debt, which excludes cash and short-term operating funds, grew ¥18.0 billion, to ¥483.8 billion, and the net interest-bearing debt ratio fell 1.2 percentage points, to 30.6%.

Shareholders' equity at year-end was ¥339.7 billion, up ¥27.2 billion, or 8.7%. The principal reason for the rise was the ¥19.7 billion increase in retained earnings, compared with one year earlier. The shareholders' equity ratio improved 0.1 percentage point, to 21.5%.

Cash Flows

Net cash provided by operating activities during the year came to ¥25.0 billion, a ¥45.7 billion increase from the negative figure recorded for the previous year. Income before income taxes and minority interests was ¥49.1 billion lower. Notes and accounts receivable, trade, was ¥28.2 billion higher, and income taxes paid increased ¥12.7 billion. In line with Qatar Petroleum Development's commencement of production, the recovery of expenses attributable to equity oil production added ¥8.5 billion to cash from fiscal 2007.

Net cash used in investing activities was ¥35.9 billion, ¥34.5 billion more than in the previous year. Main factors included the acquisition of property plant and equipment, such as transportation infrastructure and gasoline desulfurization equipment at refineries, which used ¥30.3 billion. Also, the investment in the Laffan Refinery in Qatar caused a ¥9.8 billion increase in investments in securities. Furthermore, proceeds from disposal of property, plant and equipment was ¥18.4 billion lower than during the previous term.

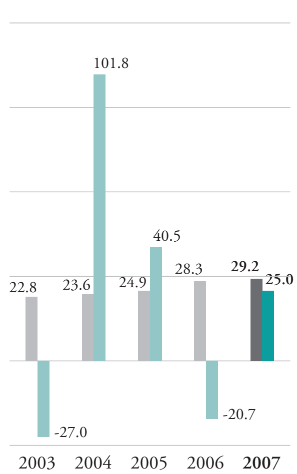
Net cash provided by financing activities was ¥80.0 billion, up ¥40.4 billion. The Group raised funds to provide for actual and anticipated working capital needs arising from the increase in receivables resulting from greater sales activities, as well as the greater need for funds given higher crude oil prices. Consequently, proceeds from long-term debt grew ¥64.7 billion, to ¥94.5 billion.

As a result of the above factors, net cash and cash equivalents at the end of the period were ¥126.1 billion, up ¥69.5 billion, or 122.7%, from one year earlier.

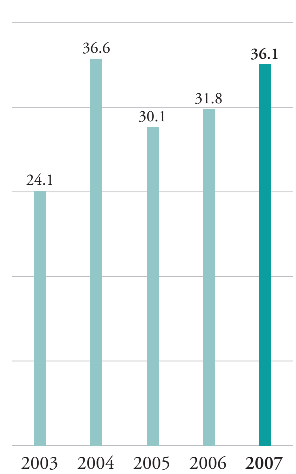
Capital Expenditures

Capital expenditures for the Petroleum and Oil Exploration and Production businesses were ¥36.6 billion for the fiscal year, up ¥4.6 billion, or 14.5%. Capital expenditures for marketing included ¥8.0 billion, mainly for new self-service stations and the conversion of existing full service stations to self-service stations, oil storage depots and distribution. Capital expenditures for the supply were ¥16.1 billion, for the acquisition of desulfurization equipment, for construction to raise export capacity and for maintenance construction at the Sakaide refinery. In Oil Exploration and Production, capital expenditures were ¥8.2 billion.

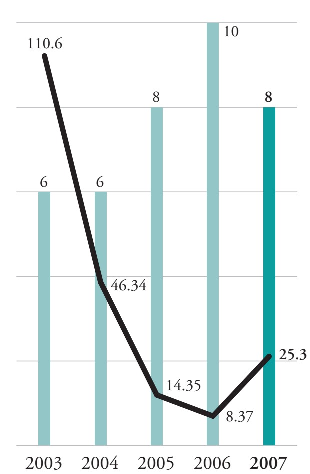
Cash Flows from Operating Activities
(Billions of Yen)
Depreciation and Amortization



Capital Expenditures
(Billions of Yen)



Cash Dividends per Share
(Yen)
Payout Ratio (%)



Going forward, while total capital expenditures of ¥140 billion are planned under the New Consolidated Mid-Term Management Plan, ¥40 billion of a planned total ¥100 billion in refinery upgrades is earmarked for strategic investments in value-added improvements at the Sakai refinery during the duration of the plan. We expect to invest the remaining ¥60 billion in planned refinery upgrades in subsequent years.

Basic Policy Regarding Earnings Appropriation

The Group places particular emphasis on shareholder return, and its basic policy is to maintain a balance between stable dividends and retained earnings to enhance its financial structure and fund future business development. In line with this policy, the Group declared dividends for the year of ¥8 per share, comprising ¥3 per share as an interim dividend and ¥5 per share as a year-end dividend.

Business and Other Risks

The Group's business performance and financial condition are 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 and that have little probability of occurring. Moreover, the following risks are not all-inclusive of the risks associated with investment in Cosmo Oil's stock.

In addition, forward-looking statements contained in the following discussion are based on Group assumptions and forecasts as of June 28, 2007.

(1) Supply and Demand Trends

Gasoline, kerosene and diesel fuel sales comprise a major portion of the Group's total sales and are strongly affected by general trends in personal consumption. In addition, demand for naphtha is strongly affected by demand trends in the petroleum industry, while diesel fuel demand is affected by the transportation industry, and heavy fuel oil demand by the electric power and shipping industries. As a result, changes in economic as well as weather conditions can cause fluctuations in demand, which, in turn, can have a material impact on the scale 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 (for example., the United States) and regions such as rapidly growing Asia (particularly China) is highly significant. As for production, increases and decreases in Middle Eastern oil-producing nations have a large impact on production trends. In addition to the outbreak of war around oil-producing nations, political instability, terrorism and other uncertainties that can significantly affect crude oil prices and supply, production stoppages at the Group's production bases can also have a material impact on the Group's business performance and financial condition.

As the price of crude oil accounts for the bulk of the Group's cost of sales, sharp declines in crude oil prices as a result of global supply–demand trends can result in a higher-than-market cost burden for the Group. Thus price fluctuations in crude oil prices can significantly affect the Group's costs.

(3) Foreign Exchange Rate Fluctuations

The Group imports crude oil and petroleum products from overseas, and usually pays for these imports in U.S. dollars, which means that fluctuations in foreign exchange rates can cause currency losses or gains. In order to minimize the impact of foreign exchange rates, the Group engages in currency hedge transactions. However, as a weaker yen results in higher procurement costs, exchange rate fluctuations can have a material impact on the Group's business performance and financial condition.

(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. On the other hand, the Group's marketing activities are conducted within Japan and selling prices are determined by domestic market conditions. Consequently, gaps and/or time lags between international and domestic market prices can have a material impact on the Group's business performance and financial condition.

(5) Interest Rate Fluctuations

Interest rate fluctuations can lead to higher borrowing costs if interest rates rise. Thus, interest rate fluctuations can have an impact on the Group's borrowing costs and can materially affect the Group's business performance and financial condition.

(6) Asset Value Fluctuations

Depending on economic circumstances, valuation losses because of fluctuations in the value of assets such as land and marketable securities that are held by the Group could have a material impact on the business performance and financial condition of the Group.

(7) Competition Risk

The Group is engaged in stiff competition with domestic and overseas companies, mainly in the petroleum business. While the Group is working to maintain and improve its competitiveness, the inability to maintain efficient business operations relative to competing companies may have a material impact on the Group's business performance and financial condition.

(8) Natural Disasters and Accidents

As refineries handle large volumes of flammable material, the Group takes particular care in implementing various safety measures to prevent accidents and 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, accidents in non-refinery operations such as storage depots, service stations, marine tankers and tanker trucks could noticeably affect the Group's operations and have a material impact on the Group's business performance.

(9) Oil Industry Regulations

Various regulations regarding pollution and environmental issues that affect the oil industry have been implemented, and the Group bears the cost of complying with these regulations. As more stringent environmental countermeasures are expected, the Group recognizes the possibility that it could be subject to new laws, regulations and taxes. Going forward, there is a risk that new laws or amendments to existing laws will result in an additional cost burden for the Group.

As one aspect of its legal compliance efforts, the Group promotes CSR management by creating the necessary systems and striving to enhance the morale of all employees. However, if the risk of legal infraction materializes because of human error or other factors, the Group may become subject to government penalties that would obstruct business operations, reduce the level of trust among customers and damage the Group's brand image, which could, in turn, affect the Group's operating performance.

For example, it was discovered that one of the Company's refineries was not in compliance with the High Pressure Gas Law and other regulations, and that some construction was unauthorized, which resulted in administrative penalities by the Nuclear and Industrial Safety Agency of the Ministry of Economy, Trade and Industry, which had an impact on the Group's performance and financial condition.

(10) Information Management

In terms of information security, virus countermeasures and personal information protection measures have been implemented to strengthen the Group's internal IT system security. In addition, the Group has contracted external third parties and implemented audits and established internal monitoring procedures and internal regulations for the handling of confidential information, including customer information. However, the unforeseen loss, leakage and alteration of confidential information including personal information could result in a loss of customer trust and tarnish the Group's brand image, which in turn could have a material impact on the Group's sales base and business performance.

Outlook

The Group's forecast involves such uncertainties as fluctuations in crude oil prices and exchange rates, as well as future shifts in market prices and the obligation to respond to environmental issues. Such factors combine to make the future operating environment unpredictable. By consistently implementing its New Consolidated Mid-Term Management Plan for growth during the upcoming 20 years, the Cosmo Oil Group plans to strengthen its earnings base in the areas of petroleum development, supply and sales, as well as petrochemicals, and implement its growth strategies.

In addition, regarding the April 2006 fire at the Group's Chiba refinery, the hydrogen manufacturing facility that caught fire was restored as scheduled at the end of June 2007, and full operating capacity has been restored at the refinery. Further, while we do not anticipate further replacement supply costs of the kind that affected fiscal 2006 financial performance, we are forecasting increased refinery maintenance costs of ¥10.9 billion (versus ¥8.3 billion of such costs in the previous fiscal year).

The fiscal year ending March 31, 2008, is the final year of the New Consolidated Mid-Term Management Plan. Based on our assumptions of Dubai crude oil prices of $60.0/barrel (FOB) and an exchange rate of ¥120.00/US$, by volume we anticipate a 0.3% increase in domestic fuel oil sales, a 51.1% increase in exports and an overall sales increase of 0.2%. Accordingly, we forecast consolidated net sales of ¥3,160.0 billion, operating income of ¥89.0 billion and net income of ¥37.0 billion.

Note: Forecast announced in May 2007.

Consolidated Balance Sheet

Cosmo Oil Company, Limited and its Consolidated Subsidiaries. March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
ASSETS			
Current assets:			
Cash and deposits (Note 5)	¥ 56,646	¥ 84,105	$ 712,452
Marketable securities (Notes 5, 10 and 16)	2,247	9,640	81,660
Notes and accounts receivable, trade (Note 3)	228,008	291,964	2,473,223
Less allowance for doubtful accounts	(553)	(971)	(8,225)
	227,455	290,993	2,464,998
Inventories (Note 4)	338,340	347,739	2,945,693
Other current assets (Note 13)	137,716	149,605	1,267,302
Total current assets	762,404	882,082	7,472,105
Property, plant and equipment (Notes 2, 7 and 16):			
Land	319,765	313,181	2,652,952
Buildings and structures	440,742	444,249	3,763,227
Machinery and equipment	396,607	409,514	3,468,989
Construction in progress	6,742	7,447	63,083
	1,163,856	1,174,391	9,948,251
Less accumulated depreciation	(630,850)	(646,044)	(5,472,630)
Net property, plant and equipment	533,006	528,347	4,475,621
Other assets:			
Investments in securities (Notes 10 and 16)	98,318	107,908	914,087
Long-term loans receivable	3,134	3,440	29,140
Other (Note 13)	68,239	58,922	499,128
Less allowance for doubtful accounts	(1,522)	(1,543)	(13,071)
Total other assets	168,169	168,727	1,429,284
Total	¥1,463,579	¥1,579,156	$13,377,010

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY/NET ASSETS			
Current liabilities:			
Short-term loans and current maturities of long-term debts (Notes 6 and 16)	¥ 197,797	¥ 274,577	$ 2,325,938
Notes and accounts payable, trade (Note 16)	273,182	281,520	2,384,752
Income, excise and other taxes payable	121,822	122,928	1,041,321
Accrued expenses and other current liabilities (Note 13)	140,651	132,821	1,125,126
Total current liabilities	733,452	811,846	6,877,137
Long-term debts, less current maturities (Notes 6 and 16)	324,633	335,313	2,840,432
Deferred tax for revaluation reserve for land (Notes 7 and 13)	20,332	23,752	201,203
Retirement and severance benefits (Notes 2 and 12)	5,565	4,614	39,085
Other long-term liabilities (Notes 13 and 16)	46,290	42,018	355,934
Minority interests	20,803	—	—
Contingencies (Note 9)			
Shareholders' equity:			
Common stock, authorized—1,700,000,000 shares; issued—671,705,087 shares	62,367	—	—
Capital surplus			
Additional paid-in capital	44,561	—	—
Retained earnings	166,149	—	—
Revaluation reserve for land (Note 7)	24,277	—	—
Net unrealized gains on securities	15,999	—	—
Foreign currency translation adjustments	(753)	—	—
Less treasury stock, at cost	(96)	—	—
Total shareholders' equity	312,504	—	—
Net assets (Note 2):			
Common stock, authorized—1,700,000,000 shares; issued—671,705,087 shares	—	62,367	528,310
Capital surplus	—	44,562	377,484
Retained earnings	—	185,851	1,574,341
Less treasury stock, at cost	—	(112)	(949)
Unrealized gains on securities, net of taxes	—	14,508	122,897
Unrealized gains on hedging derivatives, net of taxes	—	12,142	102,855
Revaluation reserve for land (Note 7)	—	20,918	177,196
Foreign currency translation adjustments	—	(535)	(4,531)
Minority interests	—	21,912	185,616
Total net assets	—	361,613	3,063,219
Total	¥1,463,579	¥1,579,156	$13,377,010

Consolidated Statements of Income

Cosmo Oil Company, Limited and its Consolidated Subsidiaries. Years ended March 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2006	2007	2007
Net sales (Note 15)	¥2,154,559	¥2,670,628	¥3,062,744	$25,944,464
Cost of sales	1,956,160	2,422,272	2,852,242	24,161,304
Gross profit	198,399	248,356	210,502	1,783,160
Selling, general and administrative expenses	132,701	137,108	140,859	1,193,215
Operating income (Note 15)	65,698	111,248	69,643	589,945
Other income (expenses):				
Interest and dividend income	2,333	6,490	1,845	15,629
Interest expenses (Note 6)	(11,484)	(10,747)	(10,686)	(90,521)
Foreign currency exchange gain (loss), net	(649)	3,439	2,884	24,430
Net loss on sale and disposal of property, plant and equipment	(1,832)	(1,141)	(1,848)	(15,654)
Impairment loss on fixed assets (Notes 2, 14 and 15)	(11,330)	(1,976)	(2,440)	(20,669)
Equity in earnings of affiliates	5,508	9,578	9,921	84,041
Write-down of marketable securities and investments in securities	(70)	(79)	(788)	(6,675)
Provision for prior year portion of allowance for retirement benefits for directors and corporate auditors (Note 2)	(460)	—	—	—
Gain on sale of investments in securities	1,974	344	66	559
Loss on sale of investments in securities	(26)	(24)	—	—
Bad debt expense for affiliates	(3,300)	—	—	—
Compensation received for the transfer of facilities	—	1,200	1,500	12,706
Collection of receivables written-off	—	2,602	278	2,355
Other,net	1,171	(541)	868	7,353
	(18,165)	9,145	1,600	13,554
Income before income taxes and minority interests	47,533	120,393	71,243	603,499
Income taxes:				
Current	28,113	50,741	37,200	315,121
Deferred (Note 13)	(7,320)	4,556	1,485	12,579
	20,793	55,297	38,685	327,700
Income before minority interests	26,740	65,096	32,558	275,799
Minority interests	(325)	(3,301)	(6,022)	(51,013)
Net income	¥ 26,415	¥ 61,795	¥ 26,536	$ 224,786

	Yen			U.S. dollars (Note 1)
Earnings per share:				
Basic	¥41.73	¥94.54	¥39.54	$0.33
Diluted	—	92.17	37.91	0.32
Cash dividends (Note 17)	8.00	10.00	8.00	0.07

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets (Note 2)

Cosmo Oil Company, Limited and its Consolidated Subsidiaries. Year ended March 31, 2007

Millions of yen

	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging, net of taxes	Revaluation reserve for land	Foreign currency translation adjustments	Minority interests	Total
Shareholders' equity at March 31, 2006, as previously reported	671,705	¥62,367	¥44,561	¥166,149	¥ (96)	¥15,999	¥ —	¥24,277	¥(753)	¥ —	¥312,504
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006	—	—	—	—	—	—	—	—	—	20,803	20,803
Net assets at April 1, 2006	671,705	¥62,367	¥44,561	¥166,149	¥ (96)	¥15,999	¥ —	¥24,277	¥(753)	¥20,803	¥333,307
Net income for the year	—	—	—	26,536	—	—	—	—	—	—	26,536
Cash dividends	—	—	—	(6,715)	—	—	—	—	—	—	(6,715)
Bonuses to directors and corporate auditors	—	—	—	(77)	—	—	—	—	—	—	(77)
Reversal of revaluation reserve for land (Note 7)	—	—	—	(42)	—	—	—	42	—	—	—
Acquisition of treasury stock	—	—	—	—	(17)	—	—	—	—	—	(17)
Disposal of treasury stock	—	—	1	—	1	—	—	—	—	—	2
Net changes during the year	—	—	—	—	—	(1,491)	12,142	(3,401)	218	1,109	8,577
Balance at March 31, 2007	671,705	¥62,367	¥44,562	¥185,851	¥(112)	¥14,508	¥12,142	¥20,918	¥(535)	¥21,912	¥361,613

Thousands of U.S. dollars (Note 1)

	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging, net of taxes	Revaluation reserve for land	Foreign currency translation adjustments	Minority interests	Total
Shareholders' equity at March 31, 2006, as previously reported		$528,310	$377,476	$1,407,446	$(813)	$135,527	$ —	$205,650	$(6,379)	$ —	$2,647,217
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006		—	—	—	—	—	—	—	—	176,222	176,222
Net assets at April 1, 2006		$528,310	$377,476	$1,407,446	$(813)	$135,527	$ —	$205,650	$(6,379)	$176,222	$2,823,439
Net income for the year		—	—	224,786	—	—	—	—	—	—	224,786
Cash dividends		—	—	(56,883)	—	—	—	—	—	—	(56,883)
Bonuses to directors and corporate auditors		—	—	(652)	—	—	—	—	—	—	(652)
Reversal of revaluation reserve for land (Note 7)		—	—	(356)	—	—	—	356	—	—	—
Acquisition of treasury stock		—	—	—	(144)	—	—	—	—	—	(144)
Disposal of treasury stock		—	8	—	8	—	—	—	—	—	16
Net changes during the year		—	—	—	—	(12,630)	102,855	(28,810)	1,848	9,394	72,657
Balance at March 31, 2007		$528,310	$377,484	$1,574,341	$(949)	$122,897	$102,855	$177,196	$(4,531)	$185,616	$3,063,219

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, 2005 and 2006

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, 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 7)	—	—	—	(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)
Issuance of common stock	40,000	10,480	10,468	—	—	—	—	—
Net income for the year	—	—	—	61,795	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	350	—
Increase resulting from mergers	—	—	—	979	—	—	—	—
Cash dividends	—	—	—	(5,172)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(71)	—	—	—	—
Reversal of revaluation reserve for land (Note 7)	—	—	—	(6,543)	6,543	—	—	—
Increase due to revaluation of available-for-sale securities	—	—	—	—	—	8,137	—	—
Valuation allowance	—	—	—	—	(2,342)	—	—	—
Surplus from sale of treasury stock	—	—	0	—	—	—	—	—
Sales of treasury stock, net	—	—	—	—	—	—	—	(17)
Balance at March 31, 2006	671,705	¥62,367	¥44,561	¥166,149	¥24,277	¥15,999	¥ (753)	¥(96)

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, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2006	2007	2007
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 47,533	¥ 120,393	¥ 71,243	$ 603,499
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	24,927	28,313	29,246	247,742
Amortization of consolidation goodwill	(86)	380	3	25
Impairment loss on fixed assets	11,330	1,976	2,440	20,669
Increase (decrease) in allowance for doubtful accounts	325	(1,912)	439	3,719
Interest and dividend income	(2,333)	(6,490)	(1,845)	(15,629)
Interest expense	11,484	10,747	10,686	90,521
Equity in earnings of affiliates	(5,508)	(9,578)	(9,921)	(84,041)
Net loss on sale or disposal of property, plant and equipment	2,481	1,141	1,848	15,654
Write-down of marketable securities and investments in securities	70	—	—	—
Decrease (increase) in notes and accounts receivable, trade	(9,374)	(35,713)	(63,956)	(541,770)
Recovery of recoverable accounts under production sharing	—	—	8,542	72,359
Decrease (increase) in inventories	(55,233)	(105,263)	(9,398)	(79,610)
Increase (decrease) in notes and accounts payable	92,504	(5,972)	8,337	70,623
Decrease (increase) in other current assets	(50,137)	10,774	21,089	178,645
Increase (decrease) in other current liabilities	(7,495)	14,862	26,745	226,557
Decrease (increase) in other investments	—	5,712	(5,783)	(48,988)
Other, net	1,443	(3,324)	1,250	10,588
Subtotal	61,931	26,046	90,965	770,563
Interest and dividends received	2,918	10,193	3,331	28,217
Interest paid	(11,259)	(10,804)	(10,520)	(89,115)
Income taxes paid	(13,096)	(46,120)	(58,771)	(497,848)
Net cash provided by (used in) operating activities	40,494	(20,685)	25,005	211,817
Cash flows from investing activities:				
Payments for purchases of property, plant and equipment	(26,349)	(18,989)	(30,263)	(256,357)
Proceeds from sale or disposal of property, plant and equipment	8,723	25,918	7,508	63,600
Payments for purchases of marketable securities and investments in securities	(13,959)	(76)	(9,846)	(83,405)
Proceeds from sale of marketable securities and investments in securities	11,721	2,139	3,343	28,319
Payments for intangible assets and deferred charges	(2,692)	(11,885)	(5,334)	(45,184)
Decrease (increase) in short-term loans receivable	943	(535)	857	7,260
Payments for long-term loans receivable	(11,207)	(154)	(1,467)	(12,427)
Proceeds from long-term loans receivable	6,148	1,428	1,102	9,335
Proceeds from factoring	1,283	514	—	—
Payments for acquisition of shares of newly consolidated subsidiaries (Note 5)	(10,573)	—	—	—
Proceeds from acquisition of shares of newly consolidated subsidiary (Note 5)	427	—	—	—
Other, net	(1,042)	292	(1,768)	(14,978)
Net cash used in investing activities	(36,577)	(1,348)	(35,868)	(303,837)
Cash flows from financing activities:				
Increase (decrease) in short-term loans payable	(47,854)	47,750	42,115	356,756
Proceeds from long-term loans payable	77,087	29,794	94,502	800,525
Repayments for long-term loans payable	(78,439)	(48,911)	(46,268)	(391,936)
Proceeds from issuance of common stock	—	20,811	—	—
Proceeds from issuance of convertible bonds	—	17,971	—	—
Redemptions of bonds	—	(21,500)	(3,000)	(25,413)
Redemptions of convertible bonds	(16,523)	—	—	—
Cash dividends paid	(3,790)	(5,172)	(6,715)	(56,883)
Cash dividends paid for minority shareholders	(510)	(498)	(471)	(3,990)
Proceeds from issuing shares for minority shareholders	19	—	—	—
Other, net	(153)	(637)	(140)	(1,185)
Net cash provided by (used in) financing activities	(70,163)	39,608	80,023	677,874
Effect of exchange rate changes on cash and cash equivalents	(212)	895	314	2,659
Net increase (decrease) in cash and cash equivalents	(66,458)	18,470	69,474	588,513
Cash and cash equivalents at beginning of year	104,520	38,062	56,632	479,729
Cash and cash equivalents from newly consolidated subsidiaries	—	100	—	—
Cash and cash equivalents at end of year (Note 5)	¥ 38,062	¥ 56,632	¥126,106	$1,068,242

The accompanying notes are an integral part of these statementes.

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, 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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the consolidated statement of shareholders' equity for 2005 and 2006) 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. Certain 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 consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 (3), are presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 (4), the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statements of shareholders' equity for the years ended March 31, 2005 and 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 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 ("Goodwill") 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, 2005, 2006 and 2007 are as follows:

	2005	2006	2007
Consolidated subsidiaries	31	30	28
Subsidiaries using the equity method	34	34	31
Affiliates using the equity method	4	4	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 and retained earnings of not applying the equity method for these investments is not material in the aggregate.

(3) Statements of cash flows

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

(4) Conversion of foreign currencies and translation of statements

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end exchange rates with resulting gains or losses included in the current statements of income.

All the items of financial statements of subsidiaries, which are stated in currencies other than Japanese yen, are translated at the year-end exchange rate of each subsidiary, except for shareholders' equity which is translated at historical rates. The resulting foreign currency translation adjustments are included in foreign currency translation adjustments in net assets.

(5) Allowance for doubtful accounts

Allowance for doubtful accounts are provided based on the amount calculated at the actual ratio of bad debt for ordinary receivables, and an amount recognized for uncollectible accounts 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 net assets. The cost of securities sold is calculated by the moving-average method. Realized gains and losses on sale of such securities are computed using the moving-average method. Other securities with no available fair market value are stated at cost, as determined by the moving-average method.

(7) Inventories

Inventories are stated principally at cost determined by the 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.

Actuarial gains and losses are recognized in expenses in equal amounts over 10 years, which is within the average of the estimated remaining service lives, commencing with the following period. Prior service costs are recognized in the statements of income using the straight-line method over 8 years.

On April 1, 2007, the Company discontinued its qualified retirement annuity system, a defined-benefit pension system, and will introduce a defined-benefit pension plan, a defined-contribution pension plan, an advance-payment plan for retirement benefits and an additional retirement benefit plan. The discontinuation of this system is expected to contribute ¥4,616 million to income for the year ending March 31, 2008 and thereafter.

(b) Retirement benefits for directors and corporate auditors

The Company's 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 (1)).

At the Company's general shareholders' meeting held on June 29, 2006, it was resolved to abolish the system of retirement allowances for directors and corporate auditors and to provide a severance payment. As a result, during the consolidated fiscal year ended March 31, 2007, the entire amount of the provision for retirement benefits for directors and corporate auditors was reversed.

(11) Allowance for special repair work

The Company and its consolidated subsidiaries provide an allowance for special repair work 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) Net assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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 Japanese laws and regulations.

(14) Derivative transaction and hedge accounting

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

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

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 purposes and those for financial reporting purposes.

(16) Revenue Recognition

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

Some of the Company's consolidated subsidiaries recognize their construction revenue by using the completed contract method, except for long-term and large engineering contracts which are more than one year term and of which contract amount is more than ¥100 million ($847 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.

Diluted net income per share was not disclosed for the year ended March 31, 2005, because no potentially dilutive securities had been issued.

(18) Recoverable accounts under production sharing

Some consolidated subsidiaries post investments in exploration and development costs on the basis of production-sharing contracts. After production commences, these exploration and development costs are recovered by the products, based on the contracts.

(19) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2007 presentation.

These changes had no impact on previously reported results of operations or net assets.

Note 2. Changes in Accounting Policy

(1) 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 reflecting better the financial position, the amounts required if all directors and corporate auditors had retired at the balance sheet date are fully accrued from the fiscal year ended March 31, 2005.

Since the current year portion of the provision for the retirement benefits of ¥146 million is recorded in selling general and administrative expenses and the cumulative effect on prior years' portion is recorded individually in the other income (expense) section, the effect of this change was to decrease operating income by ¥146 million and to decrease income before income taxes and minority interests by ¥606 million (see Note 12).

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

(2) 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).

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

The effect of the change in segment information is disclosed in Note 15.

(3) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheets (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheets as of March 31, 2007 prepared in accordance with the New Accounting Standards comprise three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheets as of March 31, 2006 prepared pursuant to the previous presentation rules comprise the assets, liabilities, minority interests and shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared with March 31, 2006. The net assets section includes unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities sections without considering the related income tax effects. Minority interests is included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests between the non-current liabilities and the shareholders' equity sections.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, shareholders' equity amounting to ¥327,560 million ($2,774,756 thousand) would have been presented.

(4) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statements of shareholders' equity for the years ended March 31, 2005 and 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

Note 3. Effect of Bank Holiday on March 31, 2007

As financial institutions in Japan were closed on March 31, 2007, amounts that would normally be settled on March 31, 2007 were collected on the following business day, April 2, 2007. The effects of the settlements on April 2 instead of March 31 included the following:

Notes and accounts receivable, trade—increased by approximately ¥170 million ($1,440 thousand)

Note 4. Inventories

Inventories at March 31, 2006 and 2007 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Finished products	¥ 90,777	¥ 86,106	$ 729,403
Semi-finished products	45,661	77,381	655,493
Materials-crude oil, auxiliary materials, etc.	80,994	85,301	722,584
Supplies-spare parts, etc.	5,582	6,707	56,815
In-transit crude oil and oil products	112,480	89,774	760,474
Land for sale	387	13	110
Others	2,459	2,457	20,814
Total	¥338,340	¥347,739	$2,945,693

Note 5. 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, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Cash and deposits	¥56,646	¥ 84,105	$ 712,452
Add:			
Marketable securities	2,247	9,640	81,660
Other current assets	—	37,004	313,461
Less:			
Deposits with maturities exceeding three months	14	—	—
Bonds with maturities exceeding three months included in marketable securities above	2,247	4,643	39,331
Cash and cash equivalents	¥56,632	¥126,106	$1,068,242

(b) Assets and liabilities of the newly consolidated subsidiaries by acquisition of shares at the inception of their consolidation for the year ended March 31, 2005, related acquisition cost and net expenditure for acquisition of shares were as follows:

	Millions of yen
	2005
Current assets	¥ 8,144
Fixed assets	11,003
Current liabilities	(4,709)
Fixed liabilities	(15,990)
Consolidation differences	1,655
Acquisition cost of shares	103
Acquisition cost of receivables under Civil Rehabilitation Law	15,400
Cash and cash equivalent of the acquired companies	4,930
Payments for acquisition of shares of newly consolidated subsidiaries	¥(10,573)

(c) Assets and liabilities of the newly consolidated subsidiary by acquisition of shares allocated to the Company at the inception of their consolidation for the year ended March 31, 2005, related acquisition cost and proceeds (net) from acquisition of shares were as follows:

	Millions of yen
	2005
Current assets	¥ 1,149
Fixed assets	13,785
Current liabilities	(1,937)
Fixed liabilities	(11,188)
Minority interests	(268)
Consolidation differences	367
Acquisition cost of shares	1,908
Payment during the previous year	(1,338)
Cash and cash equivalents of the acquired companies	997
Proceeds from acquisition of shares of newly consolidated subsidiaries	¥ 427

Note 6. Short-Term Loans and Long-Term Debt

The short-term loans from banks of ¥149,166 million and ¥191,392 million ($1,621,279 thousand), as of March 31, 2006 and 2007, bear interest ranging from 0.10% to 5.36% and from 0.10% to 6.11% per annum, respectively. The banks have basic agreements with the Company and its consolidated subsidiaries to the effect that, with respect to all present or future loans with the banks, the Company and its consolidated subsidiaries shall provide collateral (including sums on deposit with such banks) or guarantees immediately upon request from the banks and that any collateral furnished, pursuant to such agreement or otherwise, will be applicable to all indebtedness to the banks.

Short-term loans and current maturities of long-term debts at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Short-term loans	¥149,166	¥191,392	$1,621,279
Current maturities of long-term debts	48,631	83,185	704,659
Total	¥197,797	¥274,577	$2,325,938

Long-term debts at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Loans from banks, insurance companies and other financial institutions, secured, with interest at 0.00% - 4.15%, due serially through 2017	¥319,464	¥367,698	$3,114,765
3.3% unsecured straight yen bonds due in 2007	9,500	9,500	80,474
3.15% unsecured straight yen bonds due in 2007	7,800	7,800	66,074
1.34% unsecured straight yen bonds due in 2007	10,000	10,000	84,710
1.60% unsecured straight yen bonds due in 2008	8,500	5,500	46,590
Unsecured zero coupon convertible bonds due in 2010 (bonds with stock acquisition rights)	18,000	18,000	152,478
	373,264	418,498	3,545,091
Less current maturities	(48,631)	(83,185)	(704,659)
Total	¥324,633	¥335,313	$2,840,432

The aggregate annual maturities of long-term debts at March 31, 2007 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2008	¥ 83,185	$ 704,659
2009	80,122	678,712
2010	35,852	303,702
2011	47,113	399,094
2012 and thereafter	172,226	1,458,924
Total	¥418,498	$3,545,091

Information with respect to the Company's convertible bonds (bonds with stock acquisition rights) is as follows:

a. Issued on	September 26, 2005
b. Initial principal	¥18,000 million
c. Maturity	September 30, 2010
d. Term of conversion	November 1, 2005 to September 29, 2010
e. Conversion price per share at March 31, 2007	¥624 ($5.29)
f. Balance of debt at March 31, 2007	¥18,000 million ($152,478 thousand)
g. Accumulated number of shares issued upon conversion in exchange for treasury stock through March 30, 2007	—
h. Number of additional shares that would be issued upon conversion, at March 31, 2007	28,846,153 shares

Note 7. Revaluation Reserve for Land

Pursuant to Article 2, Paragraphs 4 and 5 of the Enforcement Ordinance for the Law concerning Revaluation Reserve for Land (the "Law"), enacted on March 31, 1998, and partial revision to the Law on March 31, 2001, the Company and two of its consolidated subsidiaries recorded their own lands used for business at fair value as of March 31, 2002 and the related unrealized gain, net of income taxes, was credited to "Revaluation reserve for land " in net assets, 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.

Differences between the fair value and carrying amount of the revalued land as of March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Difference between the fair value and carrying amount of the revalued land	¥(84,686)	¥(88,030)	$(745,701)

Note 8. Lease Transactions

A. Lessee leases

Lease payments of finance leases under which the ownership of the leased assets is not transferred to lessees for the years ended March 31, 2005, 2006 and 2007 were ¥3,958 million, ¥3,618 million and ¥3,682 million ($31,190 thousand), respectively.

Total lease obligations as of March 31, 2006 and 2007 with interest portion under such leases were ¥8,987 million and ¥9,644 million ($81,694 thousand), including ¥3,356 million and ¥3,387 million ($28,691 thousand) due within one year. Included in the total lease obligations as of March 31, 2007 is obligation for sub-lease payment of ¥4,707 million ($39,873 thousand).

Equivalent of acquisition cost, accumulated depreciation, and net book value of leased properties for the years ended March 31, 2006 and 2007, were as follows:

	Millions of yen		
Year ended March 31, 2006	Machinery & equipment	Other	Total
Acquisition cost equivalent	¥ 3,892	¥ 7,206	¥11,098
Accumulated depreciation equivalent	(2,231)	(3,841)	(6,072)
Net book value equivalent	¥ 1,661	¥ 3,365	¥ 5,026

Year ended March 31, 2007	Machinery & equipment	Other	Total
			Millions of yen
Acquisition cost equivalent	¥ 3,701	¥ 7,063	¥10,764
Accumulated depreciation equivalent	(2,057)	(3,770)	(5,827)
Net book value equivalent	¥ 1,644	¥ 3,293	¥ 4,937

Year ended March 31, 2007	Machinery & equipment	Other	Total
			Thousands of U.S. dollars (Note 1)
Acquisition cost equivalent	$ 31,351	$ 59,831	$ 91,182
Accumulated depreciation equivalent	(17,425)	(31,936)	(49,361)
Net book value equivalent	$ 13,926	$ 27,895	$ 41,821

B. Lessor leases

Rental income from finance leases under which the ownership of the leased assets is not transferred to lessees for the years ended March 31, 2005, 2006 and 2007 were ¥2,163 million, ¥1,745 million and ¥1,887 million ($15,985 thousand), respectively.

Total lease obligations as of March 31, 2006 and 2007, inclusive of interest income under such leases, were ¥4,141 million and ¥4,908 million ($41,576 thousand), including ¥1,609 million and ¥1,764 million ($14,943 thousand) due within one year. Included in the total lease obligations as of March 31, 2007 is obligation for sub-lease payment of ¥4,904 million ($41,542 thousand).

Acquisition cost, accumulated depreciation and net book value of leased properties for the years ended March 31, 2006 and 2007, were as follows:

Year ended March 31, 2006	Machinery & equipment	Other	Total
			Millions of yen
Acquisition cost	¥ 5	¥ 179	¥ 184
Accumulated depreciation	(5)	(170)	(175)
Net book value	¥ 0	¥ 9	¥ 9

Year ended March 31, 2007	Machinery & equipment	Other	Total
			Millions of yen
Acquisition cost	¥ 5	¥ 70	¥ 75
Accumulated depreciation	(5)	(66)	(71)
Net book value	¥ 0	¥ 4	¥ 4

Year ended March 31, 2007	Machinery & equipment	Other	Total
			Thousands of U.S. dollars (Note 1)
Acquisition cost	$ 42	$ 593	$ 635
Accumulated depreciation	(42)	(559)	(601)
Net book value	$ 0	$ 34	$ 34

Note 9. Contingencies

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, 2007 were ¥3,287 million ($27,844 thousand).

Note 10. Securities

The following tables summarize acquisition costs, book value, and fair value of securities as of March 31, 2006 and 2007.

As of March 31, 2006
(a) Held-to-maturity debt securities
Bonds with fair value

	Book value	Fair value	Difference
			Millions of yen
Fair value exceeding book value	¥ —	¥ —	¥ —
Fair value not exceeding book value	1,799	1,751	(48)
Total	¥1,799	¥1,751	¥(48)

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

	Acquisition cost	Book value	Difference
			Millions of yen
Book value exceeding acquisition cost:			
Equity securities	¥15,182	¥39,946	¥24,764
Bonds	1,000	1,003	3
Others	3	6	3
Sub-total	¥16,185	¥40,955	¥24,770
Book value not exceeding acquisition cost:			
Equity securities	¥ 1,567	¥ 1,403	¥ (164)
Bonds	—	—	—
Sub-total	¥ 1,567	¥ 1,403	¥ (164)
Total	¥17,752	¥42,358	¥24,606

(c) Available-for-sale securities sold during year ended March 31, 2006

	Amount of sales	Gain	Loss
			Millions of yen
	¥512	¥344	¥24

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

	Book value
	Millions of yen
(a) Held-to-maturity debt securities	
Non-listed bonds	¥ 65
(b) Shares issued by unconsolidated subsidiaries and affiliates	
Non-listed securities	¥43,919
(c) Available-for-sale securities	
Non-listed securities	¥12,230

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

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Millions of yen
Government bonds and municipal bonds	¥1,480	¥ 11	¥ 9	¥ —
Corporate bonds	217	1,064	—	—
Total	¥1,697	¥1,075	¥ 9	¥ —

As of March 31, 2007

(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	1,081	1,059	(22)	9,157	8,971	(186)
Total	¥1,081	¥1,059	¥(22)	$9,157	$8,971	$(186)

(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	¥15,419	¥37,821	¥22,402	$130,614	$320,381	$189,767
Bonds	—	—	—	—	—	—
Others	4	6	2	34	51	17
Sub-total	15,423	37,827	22,404	130,648	320,432	189,784
Book value not exceeding acquisition cost:						
Equity securities	988	964	(24)	8,369	8,166	(203)
Bonds	4,000	3,989	(11)	33,884	33,791	(93)
Sub-total	4,988	4,953	(35)	42,253	41,957	(296)
Total	¥20,411	¥42,780	¥22,369	$172,901	$362,389	$189,488

(c) Available-for-sale securities sold during year ended March 31, 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Amount of sales	Gain	Loss	Amount of sales	Gain	Loss
	¥79	¥40	¥ —	$669	$339	$ —

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	¥ 64	$ 542
(b) Shares issued by unconsolidated subsidiaries and affiliates		
Non-listed securities	¥52,314	$443,151
(c) Available-for-sale securities		
Commercial paper	4,996	42,321
Non-listed securities	16,094	136,332
Total	¥21,090	$178,653

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	¥1,556	¥ 513	¥5	¥ —
Corporate bonds	2,564	500	—	—
Total	¥4,120	¥1,013	¥5	¥ —

	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	$13,181	$4,346	$42	$ —
Corporate bonds	21,719	4,235	—	—
Total	$34,900	$8,581	$42	$ —

Note 11. Derivative Financial Instruments and Hedging Transactions

(1) Nature and objective of derivative transactions

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

A. Hedging instruments and hedged items

Hedging instruments	Hedged items
Interest rate swaps	Borrowings
Crude oil and petroleum 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 the 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 considers that there is insignificant credit risk associated with these derivative transactions.

(4) Management of risks related to derivative transactions

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

Regarding commodity-related derivative transactions, the Demand & Supply Coordination Department, International Business Department, Industrial Fuel Department, Crude Oil & Tanker Department and 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, 2006 and 2007 of derivative transactions for which hedge accounting has not been applied.

(1) Currency-related

					Millions of yen
	Contract amounts			Market value	Unrealized gains and losses
Year ended March 31, 2006	Due within 1 year	Due after 1 year	Total		
Forward exchange contracts					
Buy					
U.S. dollars	¥82,487	¥ —	¥82,487	¥83,232	¥745
Currency option contracts					
Buy					
Call U.S. dollars	22,319	—	22,319	46	(58)
Sell					
Put U.S. dollars	5,874	—	5,874	28	28

					Millions of yen
	Contract amounts			Market value	Unrealized gains and losses
Year ended March 31, 2007	Due within 1 year	Due after 1 year	Total		
Forward exchange contracts					
Buy					
U.S. dollars	¥88,401	¥ —	¥88,401	¥88,914	¥513
Sell					
U.S. dollars	30	—	30	31	(1)
Currency option contracts					
Buy					
Call U.S. dollars	13,576	—	13,576	123	90
Sell					
Put U.S. dollars	5,312	—	5,312	(5)	(5)

Year ended March 31, 2007	Contract amounts: Due within 1 year	Due after 1 year	Total	Market value	Unrealized gains and losses
	Thousands of U.S. dollars (Note 1)				
Forward exchange contracts					
Buy					
U.S. dollars	$748,844	$ —	$748,844	$753,189	$4,345
Sell					
U.S. dollars	254	—	254	263	(9)
Currency option contracts					
Buy					
Call U.S. dollars	115,002	—	115,002	1,042	762
Sell					
Put U.S. dollars	44,998	—	44,998	(42)	(42)

(2) Interest rate-related

Year ended March 31, 2006	Contract amounts: Due within 1 year	Due after 1 year	Total	Market value	Unrealized gains
	Millions of yen				
Swap transaction of interest rates					
Receive-fixed; pay-variable	¥3,000	¥16,500	¥19,500	¥ (298)	¥(745)
Receive-variable; pay-fixed	3,000	16,500	19,500	(1,538)	(97)

Year ended March 31, 2007	Contract amounts: Due within 1 year	Due after 1 year	Total	Market value	Unrealized losses
	Millions of yen				
Swap transaction of interest rates					
Receive-fixed; pay-variable	¥2,500	¥14,000	¥16,500	¥ (137)	¥170
Receive-variable; pay-fixed	2500	14,000	16,500	(1,233)	224

Year ended March 31, 2007	Contract amounts: Due within 1 year	Due after 1 year	Total	Market value	Unrealized losses
	Thousands of U.S. dollars (Note 1)				
Swap transaction of interest rates					
Receive-fixed; pay-variable	$21,177	$118,594	$139,771	$ (1,161)	$1,440
Receive-variable; pay-fixed	21,177	118,594	139,771	(10,445)	1,898

Note 12. Retirement and Severance Benefits

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

The liabilities for retirement and severance benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2007 consist of the following:

March 31, 2006	Millions of yen
Projected benefit obligation	¥(93,006)
Pension assets	88,676
Unrecognized actuarial differences	(176)
Sub-total	(4,506)
Retirement benefits for directors and corporate auditors	(1,059)
Liabilities for retirement and severance benefits	¥ (5,565)

March 31, 2007	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligation	¥(90,398)	$(765,760)
Pension assets	94,448	800,068
Unrecognized actuarial differences	(935)	(7,920)
Unrecognized prior service cost	(347)	(2,939)
Prepaid pension costs	(7,048)	(59,705)
Sub-total	(4,280)	(36,256)
Retirement benefits for directors and corporate auditors	(334)	(2,829)
Liabilities for retirement and severance benefits	¥ (4,614)	$ (39,085)

Included in the consolidated statements of income for the years ended March 31, 2005, 2006 and 2007 are retirement and severance benefit expenses comprised of the following:

March 31, 2005	Millions of yen
Service costs	¥ 2,541
Interest cost on projected benefit obligation	2,031
Expected return on plan assets	(2,309)
Amortization of net transition obligation	4,739
Amortization of net actuarial loss	1,373
Retirement and severance benefit expenses	¥ 8,375

March 31, 2006	Millions of yen
Service costs	¥ 2,651
Interest cost on projected benefit obligation	2,026
Expected return on plan assets	(2,440)
Amortization of net actuarial loss	1,286
Retirement and severance benefit expenses	¥ 3,523

March 31, 2007	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs	¥ 3,040	$ 25,752
Interest cost on projected benefit obligation	1,377	11,665
Expected return on plan assets	(3,040)	(25,752)
Amortization of prior service cost	(23)	(195)
Amortization of net actuarial loss	759	6,429
Retirement and severance benefit expenses	¥ 2,113	$ 17,899

Actuarial assumptions used in computation of retirement and severance liabilities for the year ended March 31, 2007, were as follows:

a. Allocation of expected benefit obligation	Straight-line method by equal allocation to each year
b. Discount rate	Primarily 1.5%
c. Expected rate of return on plan assets	Primarily 3.5%
d. 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)
e. Amortization of prior service cost	Prior service costs are recognized in the statements of income using the straight-line method over 8 years.

Note 13. 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 years ended March 31, 2006 and 2007:

Year ended March 31, 2006	
Statutory income tax rate	40.44%
Increase (decrease) in taxes resulting from:	
Non-Japanese taxes	7.80
Non-deductible revenue	(1.04)
Non-deductible expenses	0.63
Effect on equity in earnings of affiliates	(3.22)
Other	1.32
Effective income tax rate	45.93%

Year ended March 31, 2007	
Statutory income tax rate	40.44%
Increase (decrease) in taxes resulting from:	
Non-Japanese taxes	16.84
Non-deductible revenue	(2.01)
Non-deductible expenses	1.02
Effect on equity in earnings of affiliates	(5.63)
Valuation allowance	2.68
Other	0.96
Effective income tax rate	54.30%

Significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2006 and 2007 are as follows:

Year ended March 31, 2006	Millions of yen
Current deferred tax assets:	
Unrealized gains	¥ 2,765
Excess bonuses accrued	2,455
Accrued business tax	1,618
Other	2,955
Total current deferred tax assets	9,793
Valuation allowance	(2)
Total current deferred tax assets, net of valuation allowance	9,791
Account offset against deferred tax liabilities	(116)
Net current deferred tax assets	¥ 9,675
Current deferred tax liabilities:	
Allowance for doubtful accounts	¥ (89)
Other	(32)
Total current deferred tax liabilities	(121)
Account offset against deferred tax assets	116
Net current deferred tax liabilities	¥ (5)
Non-current deferred tax assets:	
Impairment loss on fixed assets	¥ 6,045
Investments in securities	4,283
Depreciation	2,380
Allowance for special repair work	2,013
Costs for retirement and severance benefits	1,521
Allowance for doubtful accounts	881
Golf-club membership	855
Unrealized gains	855
Other	2,449
Total non-current deferred tax assets	21,282
Valuation allowance	(1,466)
Total non-current deferred tax assets, net of valuation allowance	19,816
Account offset against deferred tax liabilities	(15,916)
Net non-current deferred tax assets	¥ 3,900
Non-current deferred tax liabilities:	
Reserve for deferred gains on sales of fixed assets for tax purposes	¥(11,780)
Non-Japanese taxes	(9,896)
Net unrealized gains on securities	(9,879)
Other	(1,336)
Total non-current deferred tax liabilities	(32,891)
Account offset against deferred tax assets	15,916
Net non-current deferred tax liabilities	¥(16,975)
Deferred tax asset and liability related to land revaluation:	
Deferred tax asset related to land revaluation	¥ 16,211
Valuation allowance	(2,289)
Total deferred tax asset related to land revaluation, net of valuation allowance	13,922
Deferred tax liability related to land revaluation	(34,254)
Net deferred tax liability related to land revaluation	¥(20,332)

Year ended March 31, 2007	Millions of yen	Thousands of U.S. dollars (Note 1)
Current deferred tax assets:		
Unrealized gains	¥ 2,833	$ 23,998
Excess bonuses accrued	2,015	17,069
Other	2,196	18,603
Total current deferred tax assets	7,044	59,670
Valuation allowance	(3)	(26)
Total current deferred tax assets, net of valuation allowance	7,041	59,644
Account offset against deferred tax liabilities	(2,086)	(17,670)
Net current deferred tax assets	¥ 4,955	$ 41,974
Current deferred tax liabilities:		
Unrealized gains on hedging derivatives	¥(11,063)	$ (93,715)
Other	(568)	(4,811)
Total current deferred tax liabilities	(11,631)	(98,526)
Account offset against deferred tax assets	2,086	17,670
Net current deferred tax liabilities	¥ (9,545)	$ (80,856)
Non-current deferred tax assets:		
Impairment loss on fixed assets	¥ 6,684	$ 56,620
Loss carried forward	4,807	40,720
Investments in securities	4,766	40,373
Depreciation	2,748	23,278
Allowance for special repair work	1,706	14,452
Costs for retirement and severance benefits	1,501	12,715
Allowance for doubtful accounts	882	7,471
Golf-club membership	809	6,853
Other	2,723	23,066
Total non-current deferred tax assets	26,626	225,548
Valuation allowance	(3,375)	(28,589)
Total non-current deferred tax assets, net of valuation allowance	23,251	196,959
Account offset against deferred tax liabilities	(20,070)	(170,013)
Net non-current deferred tax assets	¥ 3,181	$ 26,946
Non-current deferred tax liabilities:		
Reserve for deferred gains on sales of fixed assets for tax purposes	¥(11,704)	$ (99,144)
Non-Japanese taxes	(9,453)	(80,076)
Net unrealized gains on securities	(8,981)	(76,078)
Other	(3,378)	(28,616)
Total non-current deferred tax liabilities	(33,516)	(283,914)
Account offset against deferred tax assets	20,070	170,013
Net non-current deferred tax liabilities	¥(13,446)	$(113,901)
Deferred tax asset and liability related to land revaluation:		
Deferred tax asset related to land revaluation	¥ 15,952	$ 135,129
Valuation allowance	(5,688)	(48,183)
Total deferred tax asset related to land revaluation, net of valuation allowance	10,264	86,946
Deferred tax liability related to land revaluation	(34,016)	(288,149)
Net deferred tax liability related to land revaluation	¥(23,752)	$(201,203)

Note 14. Impairment on Fixed Assets

The Company and its consolidated subsidiaries ("the Companies") 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 Companies 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 idle assets, each property is considered to constitute a group.

Due to the significant decrease in the market value of the Companies' 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 losses of ¥1,976 and ¥2,440 million ($20,669 thousand), consisting of the following, were recognized for the years ended March 31, 2006 and 2007.

Year ended March 31, 2006

Use	Location	Type of assets	Impairment loss Millions of yen
Petroleum	Cosmo Oil Sales Co., Ltd., service stations	Land	¥ 40
	Sendai-shi, Miyagi and 5 others	Other	187
			227
Buildings for rent	Cosmo Oil Co., Ltd.	Land	90
	Fukuoka-shi, Fukuoka and 2 others	Other	2
			92
Idle assets	Cosmo Oil Co., Ltd.	Land	1,100
	Kobe-shi, Hyogo and 63 others	Other	557
			1,657
Total			¥1,976

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 based on a discount rate of 5%.

Recoverable amounts of idle assets are primarily determined by their estimated fair values. Such fair values were determined by real estate appraisal standards in case of material assets.

Year ended March 31, 2007

			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	¥ 420	$ 3,558
	Tokorozawa-shi, Saitama and 9 others	Other	230	1,948
			650	5,506
Buildings for rent	Cosmo Oil Sales Co., Ltd.	Land	37	313
	Fukushima-shi, Fukushima	Other	—	—
			37	313
Idle assets	Cosmo Oil Co., Ltd.	Land	1,273	10,784
	Kitakyushu-shi, Fukuoka and 110 others	Other	480	4,066
			1,753	14,850
Total			¥2,440	$20,669

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 based on a discount rate of 6%.

Recoverable amounts of idle assets are primarily determined by their estimated fair values. Such fair values were determined by real estate appraisal standards in the case of material assets.

Note 15. 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 and oil resource development.

For the years ended March 31, 2005, 2006 and 2007, summarized product group business operations of the Company and its consolidated subsidiaries were as follows:

						Millions of yen
Year ended March 31, 2005	Petroleum	Oil exploration and production	Other	Total	Elimination or corporate	Consolidated
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, impairment loss on fixed assets 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

						Millions of yen
Year ended March 31, 2006	Petroleum	Oil exploration and production	Other	Total	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥2,616,887	¥ 17,030	¥36,711	¥2,670,628	¥ —	¥2,670,628
Inter-segment	559	33,446	32,658	66,663	(66,663)	—
Total	2,617,446	50,476	69,369	2,737,291	(66,663)	2,670,628
Operating expenses	2,533,910	21,109	68,365	2,623,384	(64,004)	2,559,380
Operating income (loss)	¥ 83,536	¥ 29,367	¥ 1,004	¥ 113,907	¥ (2,659)	¥ 111,248
Identifiable assets, depreciation and amortization, impairment loss on fixed assets and capital expenditures:						
Assets	¥1,277,205	¥127,946	¥32,422	¥1,437,573	¥ 26,006	¥1,463,579
Depreciation and amortization	¥ 22,828	¥ 5,744	¥ 135	¥ 28,707	¥ (394)	¥ 28,313
Impairment loss on fixed assets	¥ 1,855	¥ 121	¥ —	¥ 1,976	¥ —	¥ 1,976
Capital expenditures	¥ 19,550	¥ 12,405	¥ 144	¥ 32,099	¥ (337)	¥ 31,762

Millions of yen

Year ended March 31, 2007	Petroleum	Oil exploration and production	Other	Total	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥2,983,900	¥ 31,905	¥46,939	¥3,062,744	¥ —	¥3,062,744
Inter-segment	616	46,227	38,578	85,421	(85,421)	—
Total	2,984,516	78,132	85,517	3,148,165	(85,421)	3,062,744
Operating expenses	2,958,848	34,617	83,904	3,077,369	(84,268)	2,993,101
Operating income (loss)	¥ 25,668	¥ 43,515	¥ 1,613	¥ 70,796	¥ (1,153)	¥ 69,643
Identifiable assets, depreciation and amortization, impairment loss on fixed assets and capital expenditures:						
Assets	¥1,357,558	¥130,354	¥43,133	¥1,531,045	¥ 48,111	¥1,579,156
Depreciation and amortization	¥ 22,396	¥ 7,098	¥ 141	¥ 29,635	¥(389)	¥ 29,246
Impairment loss on fixed assets	¥ 2,440	¥ —	¥ —	¥ 2,440	¥ —	¥ 2,440
Capital expenditures	¥ 28,387	¥ 8,203	¥ 151	¥ 36,741	¥ (614)	¥ 36,127

Thousands of U.S. dollars (Note 1)

Year ended March 31, 2007	Petroleum	Oil exploration and production	Other	Total	Elimination or corporate	Consolidated
Net sales:						
Outside customers	$25,276,578	$270,267	$397,619	$25,944,464	$ —	$25,944,464
Inter-segment	5,218	391,588	326,794	723,600	(723,600)	—
Total	25,281,796	661,855	724,413	26,668,064	(723,600)	25,944,464
Operating expenses	25,064,363	293,240	710,749	26,068,352	(713,833)	25,354,519
Operating income (loss)	$ 217,433	$368,615	$ 13,664	$ 599,712	$ (9,767)	$ 589,945
Identifiable assets, depreciation and amortization, impairment loss on fixed assets and capital expenditures:						
Assets	$11,499,856	$1,104,227	$365,379	$12,969,462	$ 407,548	$13,377,010
Depreciation and amortization	$ 189,716	$ 60,127	$ 1,195	$ 251,038	$ (3,296)	$ 247,742
Impairment loss on fixed assets	$ 20,669	$ —	$ —	$ 20,669	$ —	$ 20,669
Capital expenditures	$ 240,466	$ 69,488	$ 1,279	$ 311,233	$ (5,202)	$ 306,031

(2) Geographic segment information

Geographic segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005, 2006 and 2007 is disclosed as follows:

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

Year ended March 31, 2006	Japan	Other	Total	Elimination or corporate	Consolidated
					Millions of yen
Net sales:					
Outside customers	¥2,605,884	¥ 64,744	¥2,670,628	¥ —	¥2,670,628
Inter-segment	57,245	292,528	349,773	(349,773)	—
Total	2,663,129	357,272	3,020,401	(349,773)	2,670,628
Operating expenses	2,579,276	327,564	2,906,840	(347,460)	2,559,380
Operating income	¥ 83,853	¥ 29,708	¥ 113,561	¥ (2,313)	¥ 111,248
Assets	¥1,318,790	¥142,977	¥1,461,767	¥ 1,812	¥1,463,579

Year ended March 31, 2007	Japan	Other	Total	Elimination or corporate	Consolidated
					Millions of yen
Net sales:					
Outside customers	¥2,960,343	¥102,401	¥3,062,744	¥ —	¥3,062,744
Inter-segment	55,592	415,456	471,048	(471,048)	—
Total	3,015,935	517,857	3,533,792	(471,048)	3,062,744
Operating expenses	2,989,948	474,297	3,464,245	(471,144)	2,993,101
Operating income	¥ 25,987	¥ 43,560	¥ 69,547	¥ 96	¥ 69,643
Assets	¥1,392,640	¥165,800	¥1,558,440	¥ 20,716	¥1,579,156

Year ended March 31, 2007	Japan	Other	Total	Elimination or corporate	Consolidated
					Thousands of U.S. dollars (Note 1)
Net sales:					
Outside customers	$25,077,027	$ 867,437	$25,944,464	$ —	$25,944,464
Inter-segment	470,919	3,519,323	3,990,242	(3,990,242)	—
Total	25,547,946	4,386,760	29,934,706	(3,990,242)	25,944,464
Operating expenses	25,327,810	4,017,764	29,345,574	(3,991,055)	25,354,519
Operating income	$ 220,136	$ 368,996	$ 589,132	$ 813	$ 589,945
Assets	$11,797,035	$1,404,490	$13,201,525	$ 175,485	$13,377,010

(3) Export 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, 2005, 2006 and 2007.

Note 16. Pledged Assets

Assets pledged as collateral at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Land	¥237,593	¥231,476	$1,960,830
Buildings and structures at net book value	36,650	36,639	310,368
Machinery and equipment at net book value	66,208	74,203	628,573
Investments in securities	110	84	712
Total	¥340,561	¥342,402	$2,900,483

Secured liabilities at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Notes and accounts payable, trade	¥ 3	¥ —	$ —
Long-term debts	156,904	157,089	1,330,699
Debts relating to transactions with banks	20,996	20,996	177,857
Total	¥177,903	¥178,085	$1,508,556

Other pledged assets at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Deposits as security for dealing:			
Marketable securities	¥54	¥44	$373
Investments in securities	9	9	76
Total	¥63	¥53	$449

Note 17. Subsequent Events

On June 28, 2007, the Company's annual shareholders' meeting approved the year-end cash dividend payment of ¥5.00 (US$0.04) per share, or a total of ¥3,358 million ($28,446 thousand) to shareholders of record at March 31, 2007.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of COSMO OIL COMPANY, LIMITED and consolidated subsidiaries as of March 31, 2007 and 2006, the related consolidated statements of income for the three years in the period ended March 31, 2007, the consolidated statement of net assets for the year ended March 31, 2007, the consolidated statements of shareholders' equity for the years ended March 31, 2006 and 2005, and the consolidated statements of cash flows for the three years in the period ended March 31, 2007, 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 subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

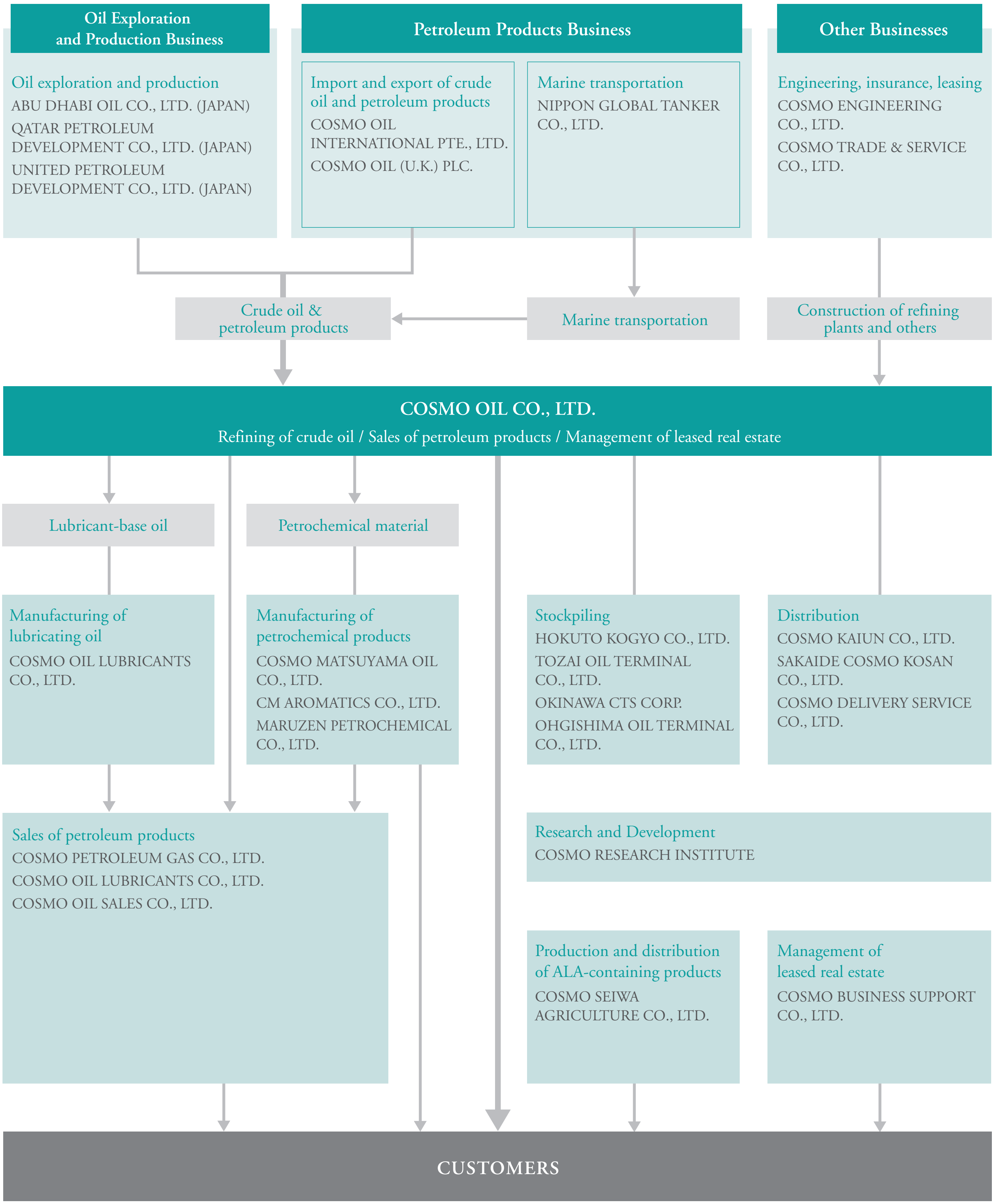
Without qualifying our opinion, we draw attention to the following:
(1) As discussed in Note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2005, COSMO OIL COMPANY, LIMITED changed the method of the accounting standard for retirement benefit for directors and 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007, 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 28, 2007

Major Subsidiaries and Affiliates



Global Network

JAPAN

Oil Exploration & Production

Cosmo Energy Exploration and Development Co., Ltd.*
- Tokyo
- ¥200 million
- 100.0%
- Oil exploration and development management

Abu Dhabi Oil Co., Ltd.*
- Tokyo
- ¥10,090 million
- 63.0%
- Crude oil development, production and sales

Cosmo Oil Ashmore Ltd.*
- Tokyo
- ¥1,784 million
- 51.0%
- Oil and natural gas surveying and drilling

United Petroleum Development Co., Ltd. #
- Tokyo
- ¥2,010 million
- 35.0%
- Crude oil production and sales

Qatar Petroleum Development Co., Ltd.*
- Tokyo
- ¥3,148 million
- 85.8%
- Crude oil development, production and sales

Marine Transportation

Nippon Global Tanker Co., Ltd.
- Tokyo
- ¥50 million
- 35.0%
- Marine transportation

Petrochemical Production

Cosmo Matsuyama Oil Co., Ltd.*
- Ehime Prefecture
- ¥3,500 million
- 100.0%
- Manufacture and sales of petrochemical products

CM Aromatics Co., Ltd. *
- Tokyo
- ¥100 million
- 65.0%
- Manufacture and sales of mixed xylene

Maruzen Petrochemical Co., Ltd. #
- Tokyo
- ¥10,000 million
- 40.0%
- Manufacture and sales of petrochemical products

Distribution & Stockpiling

Cosmo Delivery Service Co., Ltd.*
- Chiba Prefecture
- ¥50 million
- 100.0%
- Trucking and transportation services

Cosmo Kaiun Co., Ltd.*
- Tokyo
- ¥330 million
- 100.0%
- Marine transportation and shipping agency

Tozai Oil Terminal Co., Ltd. #
- Tokyo
- ¥480 million
- 50.0%
- Contracts for oil receiving and shipping works

Okinawa CTS Corp. #
- Okinawa Prefecture
- ¥495 million
- 35.0%
- Oil storage, receiving and shipping works

Hokuto Kogyo Co., Ltd.*
- Hokkaido
- ¥20 million
- 100.0%
- Oil receiving and shipping works

Sales of Petroleum Products

Cosmo Oil Lubricants Co., Ltd.*
- Tokyo
- ¥1,620 million
- 100.0%
- Manufacturing, research, and sales of lubricating oil, various greases and other products

Cosmo Petroleum Gas Co., Ltd.*
- Tokyo
- ¥3,500 million
- 100.0%
- Import, storage and sales of LPG

Cosmo Oil Sales Co., Ltd.*
- Tokyo
- ¥584 million
- 100.0%
- Sales of oil products

Research & Development

Cosmo Research Institute*
- Tokyo
- ¥50 million
- 100.0%
- Oil-related research

Engineering

Cosmo Engineering Co,. Ltd.*
- Tokyo
- ¥385 million
- 88.9%
- General plant and equipment engineering

Others

Cosmo Business Support Co., Ltd.*
- Tokyo
- ¥300 million
- 100.0%
- Real estate management, brokerage, leasing; sales of environmental materials

Cosmo Trade & Service Co., Ltd.*
- Tokyo
- ¥200 million
- 100.0%
- Service station construction subcontracting, agency for various types of insurance, leasing

OVERSEAS

Cosmo Oil International Pte., Ltd.*
- Singapore
- S$19,500,000
- 100.0%
- Purchase and sales of crude oil and finished products

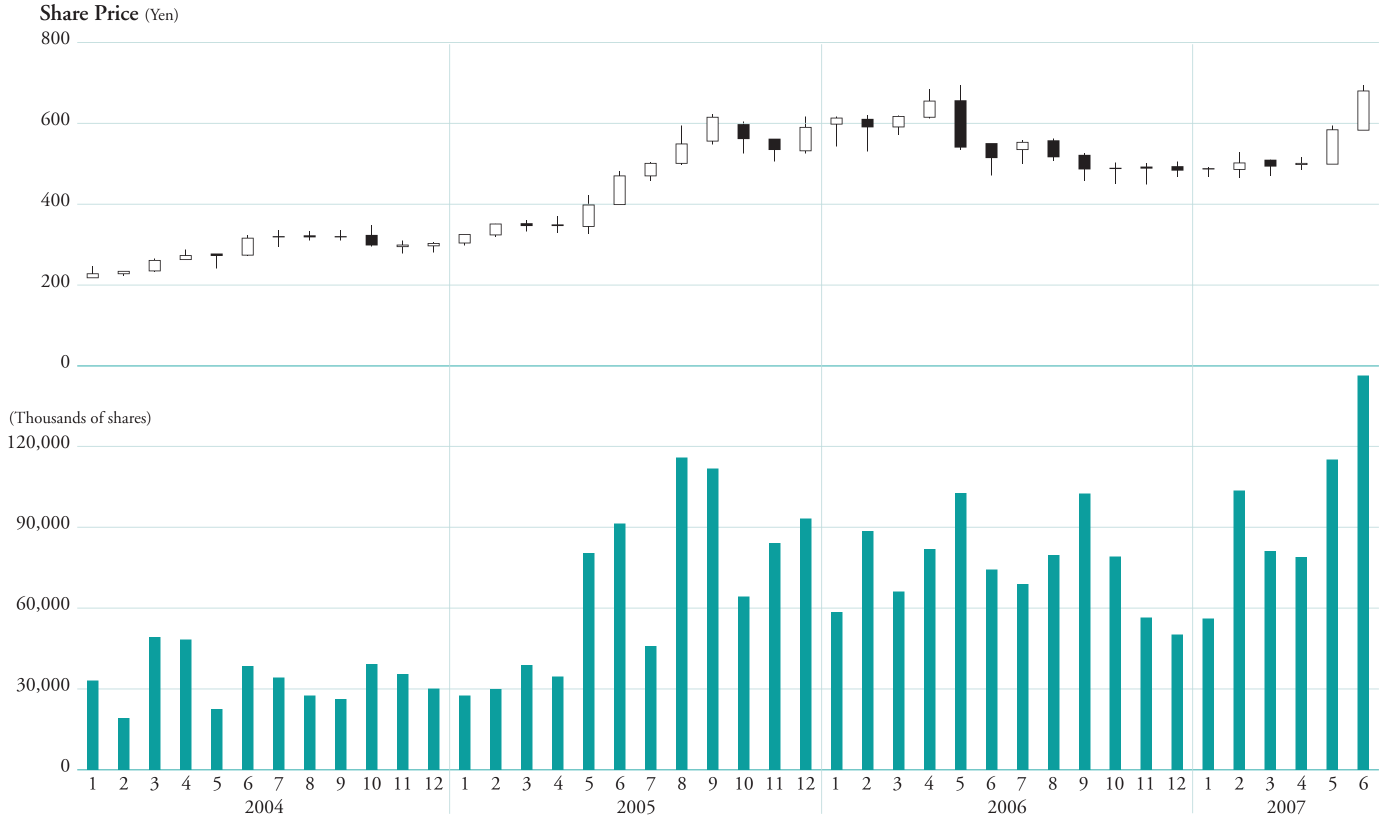
Cosmo Oil of U.S.A., Inc.*
- California
- US$250,000
- 100.0%
- Support for sales of petroleum products

Cosmo Oil (U.K.) Plc.*
- London
- US$4,982,000
- 100.0%
- Purchase and sales of crude oil and finished products

- Location
- Paid-in Capital
- Shareholding
- Principal Business

* Consolidated
# Accounted for by the equity method

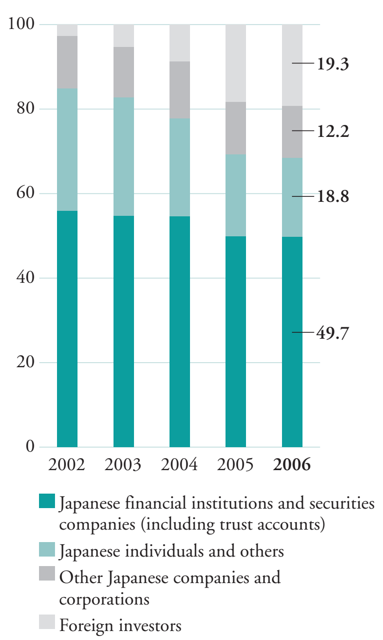
Price Range of Stock and Trading Volume



Principal Shareholders

Shareholder	Investment in the Company: Number of shares owned (thousands)	Percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd. (trust account)	57,055	8.49
Mizuho Corporate Bank, Ltd.	31,320	4.66
The Master Trust Bank of Japan, Ltd. (trust account)	28,796	4.28
Mitsui Sumitomo Insurance Co., Ltd.	21,878	3.25
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	19,750	2.94
The Kansai Electric Power Co., Inc.	18,600	2.76
Tokio Marine & Nichido Fire Insurance Co., Ltd.	17,335	2.58
Sompo Japan Insurance Inc.	15,792	2.35
Nippon Life Insurance Company	14,632	2.17
Japan Trustee Services Bank, Ltd. (Trust Account 4)	14,516	2.16

Shares by Type of Shareholder (%)



Corporate Data (As of March 31, 2007)

Cosmo Oil Co., Ltd.	
Head Office	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	¥62,366,816,126
Type of Business	Refining and sales of oil products
Fiscal Year-End	March 31
Number of Employees	1,916
Number of Dealers	284
Refineries	Chiba, Yokkaichi, Sakai, Sakaide
Number of Common Shares Issued	671,705,087
Transfer Agent	The Chuo Mitsui Trust & Banking Co., Ltd.

●Inquiries:

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COSMO OIL CO., LTD.

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