COSMO OIL CO., LTD.

ANNUAL REPORT 2008

For the year ended March 31, 2008

Strengthening the Basics of Future Growth

Profile

The Cosmo Oil Group endeavors to help respond to the energy needs of society through its various businesses, which center on the supply of petroleum and petroleum products, while at the same time it works to maximize corporate value by promoting sustainable development. To these ends, the Group is reinforcing its competitiveness and profitability by focusing on integrating its operations, which range from upstream oil exploration to downstream petroleum sales. In the fiscal year ended March 31, 2008, Cosmo Oil formulated its Third Consolidated Mid-Term Management Plan. The overarching themes of this plan are to rebuild the Group's earnings base and to lay the foundation for future growth. Guided by this plan, which will begin in the fiscal year ending March 31, 2009, and run for three years, the Group pledges to devote its best efforts to implement the strategies set forth in the plan.

Disclaimer Regarding Forward-Looking Statements
This annual report contains forward-looking statements regarding the Cosmo Oil Group's future plans and strategies, as well as its results estimates and forecasts. These statements are not based on historical fact, but represent management's assumptions and beliefs based on information currently available, and involve certain risks and uncertainties. Potential risks and uncertainties include, but are not limited to, intense competition, market demand and various regulations relevant to the petroleum industry. Actual results and business performance may differ materially from these statements. Accordingly, investors are cautioned not to base investment decisions exclusively on forward-looking statements.

Contents

The Cosmo Oil Group Management Vision

In striving for harmony and symbiosis between our planet, man and society, we aim for sustainable growth to a future of limitless possibilities.

>>Harmony and Symbiosis

• Harmony and Symbiosis with the Global Environment
We regard problems of the global environment as some of the most important issues to be resolved by all human beings, and will take positive action to protect the earth's environment.

• Harmony and Symbiosis between Energy and Society
As a company that shoulders part of Japan's energy supply, we see our mission as being to provide a reliable supply of safe and comfortable energy in awareness of the needs of consumers and society, and we aim to evolve further into a comprehensive energy supplier.

• Harmony and Symbiosis between Companies and Society
Based on the perception that society is the bedrock for the existence of companies, we will respect the law and international rules and act with a fair and social conscience, while also taking positive action to contribute to society and aiming for comprehensive growth in harmony with society.

>>Creating Future Values

• Creating the Value of "Customer First"
By developing and providing safe, reassuring products and services based on innovative ideas, we will raise levels of satisfaction in response to the wishes of consumers and users, and thereby enrich their lives.

• Creating Value From the Diverse Ideas of the Individual
We will respect individual interests and concerns, as well as innovative ideas and value creation arising from a positive attitude of pioneering change.

• Creating Value by Expressing Collective Wisdom
The entire Cosmo Oil Group will create new values and technologies by collectively sharing information, knowledge and experience, and collectively harmonizing individual self-realization.

Corporate Messages

Our message to customers

Filling Up Your Hearts, Too

Our message to society

Living With Our Planet

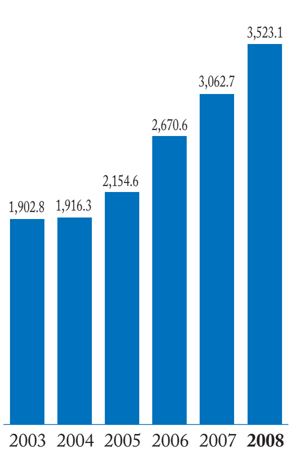
Consolidated Financial Highlights

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

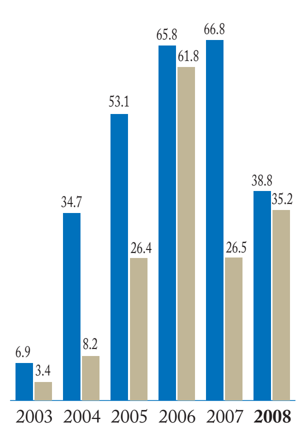
		2003	2004	2005	2006
	For the Year:				
1	Net sales	¥1,902,768	¥1,916,278	¥2,154,559	¥2,670,628
	Operating income	24,167	25,246	65,698	111,248
	Inventory valuation gain (loss)	17,300	(9,500)	12,600	45,400
2	Operating income excluding the impact of inventory valuations	6,867	34,746	53,098	65,848
3	Net income	3,426	8,179	26,415	61,795
	At Year End:				
	Total assets	1,246,730	1,260,092	1,323,149	1,463,579
	Shareholders' equity	193,595	204,806	227,897	312,504
	Interest-bearing debt	562,649	559,259	497,804	522,430
	Amounts per Share:				
	Net income per share	¥ 5.42	¥ 12.95	¥ 41.73	¥ 94.54
	Net assets per share	306.67	324.43	360.93	465.48
	Cash dividends	6.00	6.00	8.00	10.00
	Ratios:				
4	ROA (%)	0.3	0.7	2.0	4.4
	ROE (%)	1.8	4.1	12.2	22.9

Notes:
1. U.S. dollar amounts are translated from Japanese yen, for the convenience of readers only, at the rate of ¥100.19 to US$1.00, the approximate rate of exchange prevailing at March 31, 2008.
2. Effective from the fiscal year ended March 31, 2007, shareholders' equity is calculated as total net assets minus minority interests.
3. Up to and including the fiscal year ended March 31, 2006, total shareholders' equity per share was presented rather than net assets per share.
4. Up to and including the fiscal year ended March 31, 2006, ROE was calculated as net income divided by total shareholders' equity.

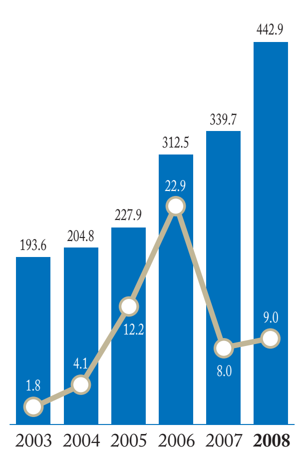
■ **Net sales**
(Billions of yen)



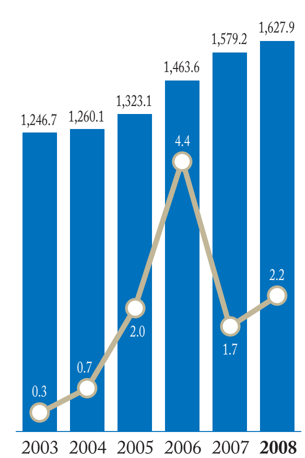
■ **Operating income excluding the impact of inventory valuations**
■ **Net income**
(Billions of yen)



■ **Shareholders' equity**
(Billions of yen)
■ **ROE**
(%)



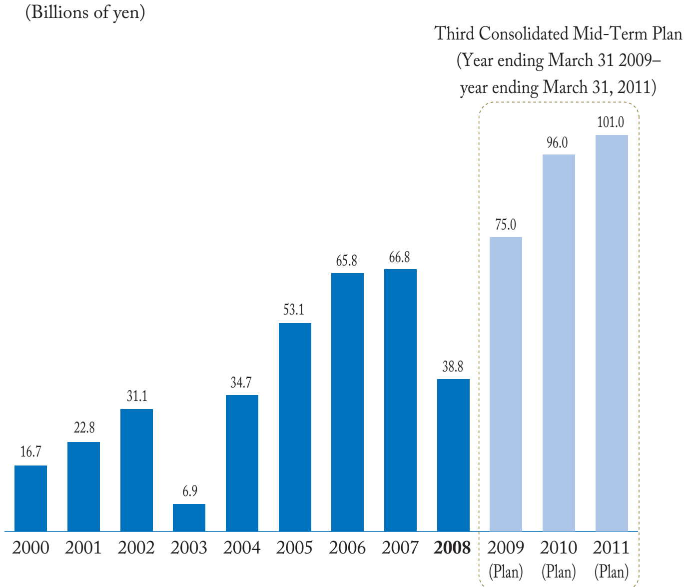
■ **Total assets**
(Billions of yen)
■ **ROA**
(%)



	Millions of yen	Thousands of U.S. dollars
2007	2008	2008
¥3,062,744	¥3,523,087	$35,164,058
69,643	83,797	836,381
2,800	45,000	449,147
66,843	38,797	387,234
26,536	35,153	350,863
1,579,156	1,627,904	16,248,168
339,701	442,912	4,420,721
609,890	521,605	5,206,158
	Yen	U.S. dollars
¥ 39.54	¥ 46.72	$0.47
506.15	522.84	5.22
8.00	8.00	0.08
1.7	2.2	–
8.0	9.0	–

■ **Operating income adjusted for the impact of inventory valuations**

(Billions of yen)



Effective from the year ended March 31, 2001, the gross average method has been used for inventory valuation.

Figures for the three years of the Third Consolidated Mid-Term Plan (the years ending March 31 2009, March 31, 2010, and March 31, 2011) are forecasts published by the Company in May 2008.

1 Net Sales

Consolidated net sales in the period under review amounted to ¥3,523.1 billion, an increase of ¥460.3 billion, or 15.0%, from the previous period. This result was largely attributable to a ¥10,310/kiloliter increase in sales prices in the Petroleum business—to ¥62,560/kiloliter, reflecting the impact of rising crude oil prices.

Owing to efforts to bolster exports, sales of petroleum, including exports, totaled 44,961,000 kiloliters, an increase of 344,000, or 0.8%.

2 Operating Income Excluding the Impact of Inventory Valuations

Operating income rose ¥14.2 billion, or 20.3%, to ¥83.8 billion. The principal factor behind this result was a difference in the valuation of inventories using the weighted average method, a consequence of rising crude oil prices, which generated a ¥45.0 billion gain on inventory valuation, compared with a ¥2.8 billion valuation gain in the previous period. After factoring out inventory valuations, however, operating income would have been ¥38.8 billion, a decline of ¥28.0 billion, or 42.0%.

3 Net Income

Consolidated net income amounted to ¥35.2 billion, an increase of ¥8.6 billion, or 32.5%. This result also primarily reflected the aforementioned gain on inventory valuation. Also contributing was an increase in other income (expenses) of ¥10.2 billion, to a net surplus of ¥11.8 billion, owing to a foreign currency exchange gain.

4 ROA and ROE

The ¥8.6 billion increase in net income, to ¥35.2 billion, boosted return on assets (ROA) 0.5 percentage point, to 2.2%. Owing to a third-party allotment of shares to Infinity Alliance Limited, a special-purpose company established by the International Petroleum Investment Company (IPIC), shareholders' equity at fiscal year-end amounted to ¥442.9 billion, up ¥103.2 billion, or 30.4%, as a consequence of which return on equity (ROE) rose 1.0 percentage point, to 9.0%.

The shareholders' equity ratio rose 5.7 percentage points, to 27.2%, from 21.5%, while the debt-to-equity ratio rose 0.6 point to 1.2 times, from 1.8 times, indicative of a stable financial base.


Keiichiro Okabe
Chairman
Yaichi Kimura
President

The Cosmo Oil Group Mission

The Cosmo Oil Group's mission is to fulfill its corporate social responsibility (CSR) to ensure stable energy supplies—thereby helping to accommodate the varied needs of society—by establishing a strong, integrated framework for our core operations, from oil exploration and production through to the refining and marketing of petroleum products and petrochemicals.

It is essential for us to constantly evolve with the times and remain an organization capable of sustainable growth. We are thus pushing ahead with CSR management, which seeks to engage all employees, with the aim of building an operational base that is strong and flexible enough to withstand future changes in our operating environment, investing for growth and responding to the expectations of all stakeholders.

Fiscal 2008 Operating Performance

In fiscal 2008, ended March 31, 2008, consolidated net sales rose ¥460.3 billion, to ¥3,523.1 billion, as surging crude oil prices pushed up selling prices. Operating income increased ¥14.2 billion, to ¥83.8 billion, and net income advanced ¥8.6 billion, to ¥35.2 billion.

After factoring out inventory valuations, however, operating income would have been ¥38.8 billion, down ¥28.0 billion. In line with our Second Consolidated Mid-Term Management Plan—a three-year initiative that concluded in the period under review—we sought to bolster revenues and earnings by rationalizing operations and increasing added value, as well as to increase exports of diesel and other middle distillates. Nonetheless, underlying operating income fell as a consequence of deteriorating margins, rising in-house fuel costs, and higher refinery maintenance costs.

Our Second Consolidated Mid-Term Management Plan focused on securing a stable earnings foundation while deploying growth strategies. Efforts during that period included starting commercial operations at Qatar Petroleum Development Co., Ltd., and launching mixed xylene production at CM Aromatics Co., Ltd. We failed to reach our profit targets because crude oil prices were higher, while demand was lower than expected. Another negative factor was an administrative penalty resulting from a fire at our Chiba refinery.

Inaugurating Our Third Consolidated Mid-Term Management Plan

In April 2008, we launched a new three-year management plan that seeks to rebuild our earnings base and lay the foundation for further growth. Guided by this plan, we will make extensive investments to make our refineries more competitive. These will center on the installation of heavy oil cracking facilities (coker unit) at our Sakai refinery—decided in November 2006—which are scheduled to come on line in the first quarter of fiscal 2011, ending March 31, 2011.

In September 2007, we concluded a strategic partnership with the International Petroleum Investment Company (IPIC), which is owned wholly by the Emirate of Abu Dhabi, to help accelerate Group growth strategies.

Pressing ahead with the strategies outlined in our Third Consolidated Mid-Term Management Plan, we will endeavor to maximize earnings and enhance shareholder value.

June 2008

Keiichiro Okabe Y. Kimura

Keiichiro Okabe
Chairman

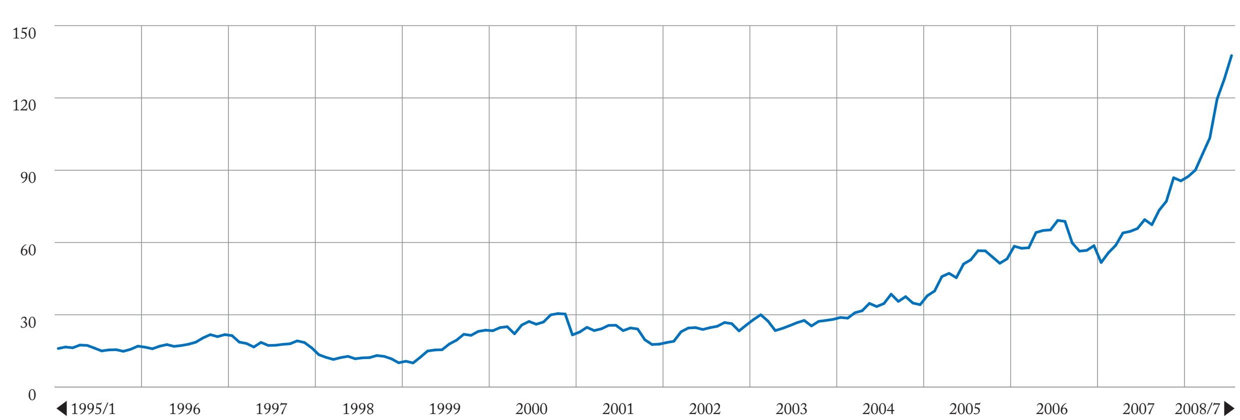
Yaichi Kimura
President

Persistently High Crude Oil Prices

Crude oil prices continue to rise to record highs. In 2002, crude was priced in the area of $20/barrel. In June 2008, prices topped $136/barrel, more than six times the price only six years earlier. Causes cited include (1) fears of a tight supply-demand balance over the long term, reflecting soaring demand in developing countries and the limited spare supply capacity of Organization of Oil Producing Countries (OPEC) members; (2) increased geopolitical risks in oil-producing countries; and (3) a significant influx of speculative investment in the crude oil market in reaction to the chaos in the U.S. financial markets precipitated by the subprime loan crisis.

A sharp jump in early 2008 was largely attributable to political instability in the oil-producing regions of Central Asia and Africa. Compounding this situation, fears of a slowdown in the U.S. economy have weakened the dollar, prompting investors to increase their exposure to commodities, while high crude prices also stimulated a rush of oil money back into the oil market.

Dubai crude prices (Tokyo) ($/barrel)



Source: Platts

Outlook for Global Demand for Petroleum Products

Demand for oil products continues to rise sharply, spurred by unprecedented global economic growth that has exceeded 4% annually since 2003. Worldwide—and particularly in the BRICs (Brazil, Russia, India and China), which have been the main drivers of global economic growth—demand has risen sharply for fuel for industry and electric power generation. Rising demand also reflects increased motorization, which is spurring the need for fuel in the transport sector, as well as rising standards of living, which is bolstering demand for other petroleum products. Going forward, the International Energy Agency (IEA) forecasts that recessionary fears in the United States, precipitated by the subprime loan crisis, coupled with a decline in demand for crude oil in reaction to soaring prices, will push down demand in North America. Nonetheless, the IEA also predicts that economic growth in countries that are not members of the Organization for Economic Co-operation and Development (OECD)—led by developing countries, will boost crude oil demand to approximately 46 million barrels/day by 2013, from the 2008 level of 38 million barrels/day, supporting overall healthy global demand.

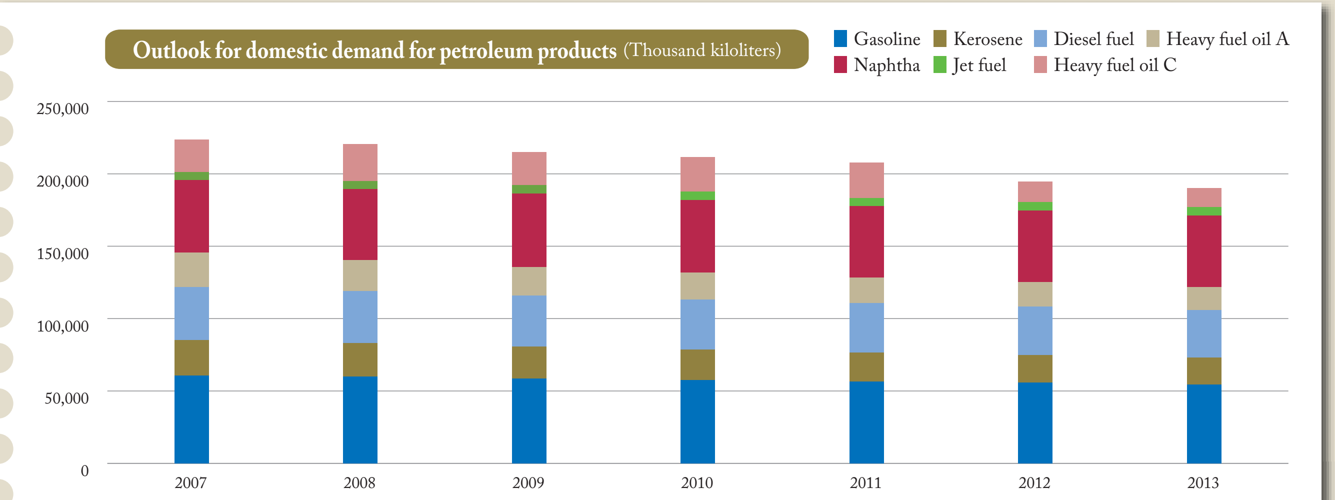
Outlook for global demand for petroleum products (Million barrels/day)

Source: IEA Medium-Term Oil Market Report, July 2008

Outlook for Domestic Demand for Petroleum Products

Prior to the First Oil Shock, growth in demand for petroleum products in Japan consistently outpaced their gross domestic product (GDP). After the Second Oil Shock, however, rising crude oil prices prompted a decline in shipments of fuel oil. After 1986, demand picked up and remained firm as falling crude oil prices and the appreciation of the yen caused petroleum product prices to stabilize. This scenario remained in place until 2004, after which domestic demand once again turned down.

Recent years have seen a conspicuous decline in sales of automobiles in Japan, a consequence of falling birthrate and the rapid aging of Japan's population. In addition, rising crude oil prices and increasing environmental awareness have prompted a shift in demand for fuel for electric power generation from crude oil to liquefied natural gas (LNG) and nuclear energy. Reflecting these trends, as well as efforts to promote energy conservation, demand for petroleum products in Japan is expected to continue declining gradually.

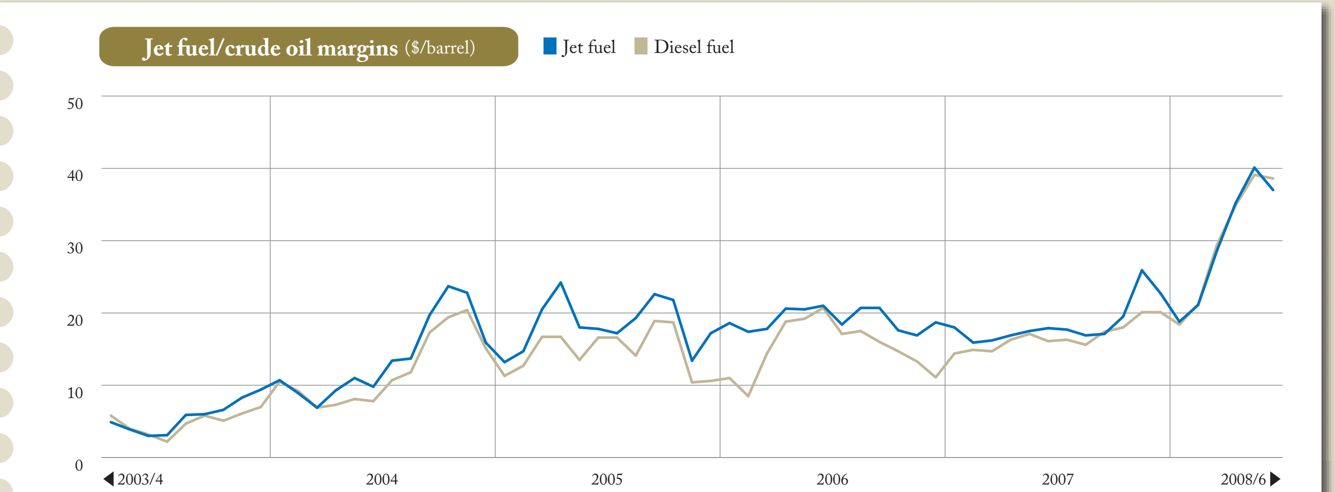


Source: FY2007 Energy Report, Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry

Firm Overseas Markets

In contrast to the forecast decline in Japan, demand for petroleum products remains firm in other markets around the world. In recent years, the revision of product prices to accommodate rising crude oil prices has enabled Japanese oil companies to secure margins on exports of jet fuel and diesel fuel, the two main petroleum products exported to overseas markets.

At present, the lack of a viable alternative to power aircraft and automobiles is likely to continue supporting firm global demand for jet fuel and diesel worldwide. With demand declining in Japan, Cosmo Oil recognizes overseas channels for selling into overseas markets as particularly promising.



Source: Platts

Third Consolidated Mid-Term Plan Targets for the Fiscal Year Ending March 31, 2011

Operating Income
(Adjusted for the impact of inventory valuations)

¥101.0 billion

Net Income

¥37.0 billion

ROE

7.4 %

Shareholders' Equity

¥516.0 billion

Debt-to-Equity Ratio

1.1 times

Equity Ratio

29.0 %

Yaichi Kimura
President

Q1 What were the main achievements of your Second Consolidated Mid-Term Management Plan, which concluded in fiscal 2008?

A1 In the oil exploration and production business, there was the long-awaited start of commercial operations at Qatar Petroleum Development Co., Ltd., while in the petrochemicals business CM Aromatics Co., Ltd., launched production of mixed xylene. In refining, we resolved in the previous period to upgrade our Sakai refinery; new facilities are expected to begin in the first quarter of fiscal 2011. We also largely fulfilled the plan's goals of adding value and rationalizing. Another achievement was the formation of a partnership with IPIC—an investment firm owned by the Emirate of Abu Dhabi—through a third-party share allotment to Infinity Alliance Limited, a special-purpose company established by IPIC. This move stabilized our financial position so we could pursue further growth.

Nonetheless, the operating climate changed dramatically, as oil prices reached record highs, while domestic demand for petroleum products declined more than we expected. An administrative penalty resulting from an accident at our Chiba refinery also negatively affected our business. As a consequence, operating income after factoring out inventory valuations was just ¥38.8 billion in the period under review, well below our target for the final year of the plan, which was ¥88.0 billion.

Q2 Your Third Consolidated Mid-Term Management Plan will run through fiscal 2011. What are the basic policies of the plan?

A2 We aim to boost consolidated operating income to ¥101.0 billion by the fiscal year ending March 31, 2011. After excluding inventory valuations, this represents an increase of ¥62.2 billion, or 160.3%, from fiscal 2008.

We intend to spend ¥38.5 billion to upgrade refineries, improve sales channels and implement other initiatives. We expect these investments to create ¥16.9 billion in added value, while we expect operational rationalizations to contribute another ¥3.1 billion. We aim to increase earnings from petroleum exploration and production by ¥22.3 billion, supported by higher oil prices and higher output at Qatar Petroleum Development.

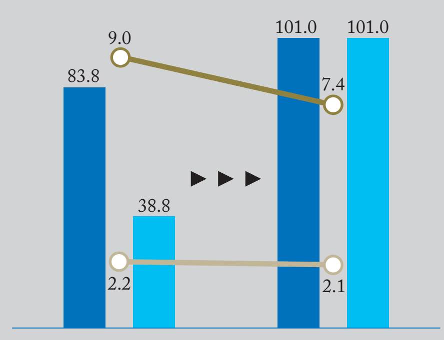
Our basic priority under the Third Consolidated Mid-Term Management Plan is to rebuild our earnings base and lay the foundation for further growth. A particularly urgent task is to address declining domestic demand for petroleum products and rising demand elsewhere, particularly in Asia. By ensuring stable supplies and promoting safe refinery operations, we will strive to harness the advanced facilities of our Sakai refinery in an effort to optimize our product mix. In the area of petroleum marketing, we will reinforce profitability by building a strong sales network in Japan while at the same time expanding exports. The upgraded Sakai refinery should help us to expand overseas sales. We must finalize growth strategies for our oil exploration and production and petrochemical

DATA 1

Third Consolidated Mid-Term Plan: Financial Targets

- Operating income (Billions of yen)
- Operating income excluding the impact of inventory valuations (Billions of yen)
- ROE (%)
- ROA (%)

Assumed crude oil prices and exchange rates	2008	2009	2010 2011
Crude oil prices ($/barrel)	77.14	95.00	85.00
Exchange rates (¥/$)	114.52	100.00	110.00



businesses. In new businesses, we will also consider joint projects that enable us to pursue synergies with IPIC. Another goal is to transform environmental businesses—notably 5-aminoleuvulinic (ALA) and a new concentrated solar power system—into key earnings contributors.

We will invest ¥265.0 billion over the three years of our new management plan. Of this, ¥182.0 billion, or 70% of the total, will be allocated to growth strategy investments and spending to strengthen existing businesses. Of this, ¥86.0 billion will be for refinery upgrades, with ¥27.0 billion to make our self-operated service stations more competitive and ¥24.0 billion to acquire new mining concessions and otherwise beef up the oil exploration and production business. We also aim to invest ¥20.0 billion to enhance the competitiveness of our refineries, and a further ¥83.0 billion to maintain and enhance the safe operation of refineries and other facilities and minimize their impact on the environment.

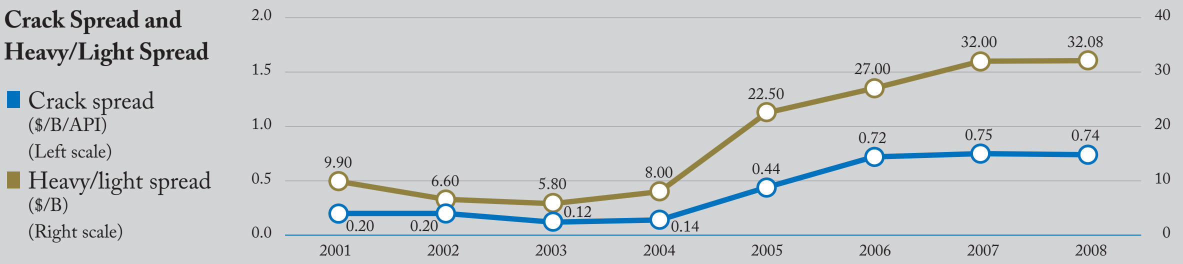
Q3 What specific steps will you take to tackle the global transformation of the demand structure, notably declining demand for petroleum products in Japan and rising demand internationally? Also, why are you investing in upgrading the Sakai refinery?

A3 The simple answer is that upgrading the Sakai refinery will allow us to use relatively cheaper oil grades while establishing production capacity that is in line with demand, thereby expanding sales of petroleum products overseas as well as in Japan to ensure revenue growth.

Changes in the demand structure mean that a decrease in domestic demand is inevitable. The Sakai refinery investments will help us in the area of heavy fuel oil A and C, for which demand has declined precipitously in Japan. The new heavy fuel oil cracking facilities (coker unit) at the Sakai refinery will facilitate relatively inexpensive processing of heavy oil. A second advantage is that the unit will enable us to convert heavy fuel oil distillates into naphtha, diesel and other value-added offerings. This and other responses to demand structure changes will enable us to cut procurement costs and increase production of value-added products, thereby enhancing the competitiveness of our refineries.

It will be essential for us to offset declining domestic demand by exporting more to areas where we anticipate demand gains. This will entail enhancing existing sales channels in North America and Oceania and cultivating new markets, notably in South America and China. To serve the west coast of the United States, for example, we have secured local shipment bases and have commenced wholesaling operations. We intend to build sales networks that are closer to consumption areas and expand through stable marketing channels. Such networks will also serve as valuable routes for marketing middle distillates from our Sakai heavy fuel oil cracking facilities (coker unit) internationally.

DATA 2



Crack spread: Price differential between heavy and light crude oil (calculated here as price differential, per barrel/unit, between Saudi extra light and heavy crudes)
(Source: Calculated by Cosmo Oil based on official published Saudi crude oil selling prices)
Heavy/light spread: Price differential between fuel oil and light distillates (calculated here as price differential between jet fuel and high sulfur heavy fuel oil C)
(Source: Calculated by Cosmo Oil based on data published by Platts)

Q4 How might record oil prices affect your profitability?

A4 Reflecting these high costs in our retail prices will be the key to profitability in our petroleum marketing business. Our Third Consolidated Mid-Term Management Plan has three priorities in this respect. The first is to build a robust brand and sales network. The second is to open more self-operated service stations and issue more credit cards. The third is to make our service stations more competitive. We will create a strong domestic sales network by stepping up collaboration with competitive dealers, while at the same time we will work with our subsidiaries to increase the ratio of self-operated service stations, which better accommodate the needs of consumers. We will issue more cards to improve consumer convenience and encourage repeat visits to Cosmo service stations. Such efforts should improve profitability in this business and stabilize earnings even if crude oil prices remain high.

Our oil exploration and production business will expand on the strength of record crude oil prices. In Abu Dhabi, Abu Dhabi Oil Co., Ltd. and United Petroleum Development Co., Ltd., will spearhead efforts to make our operations safer and more stable. In Qatar, we will increase output at existing wells while starting production at an oil field in A-Structure South and beginning exploration at an oil field in Block 3. In Australia, our focus is on the prompt start of commercial production at new oil wells. By drawing on our partnership and new joint projects with IPIC and our operations in the Middle East and Australia, we aim to raise our equity crude production to 10% of our total crude oil imports over the medium to long term.

Q5 IPIC's investment last year should help you to accelerate your growth strategies. What synergies do you envisage, including from projects that you are assessing?

A5 On September 18, 2007, we concluded a comprehensive and strategic partnership with IPIC covering energy businesses in Japan, elsewhere in Asia, and in the rest of the Pacific Rim, and made a third-party share allocation to special-purpose company Infinity Alliance Limited. We aim to create a stable long-term supply structure by strengthening partnerships with the United Arab Emirates, the Cosmo Oil Group's principal source of crude oil. At the same time, we wish to enhance our profitability through joint projects in strategic growth businesses. This partnership and the increased capitalization from it have formed the basis for executing our growth initiatives while reinforcing our financial position.

We are looking into joint projects in four areas. First, we are evaluating prospective joint oil exploration and production projects that would help us to quickly raise equity crude production to 10% of our total crude oil imports. Second, to upgrade refining and petrochemical production facilities, we are harnessing our management resources, funding from IPIC, and IPIC's global network to evaluate new strategies to boost profitability. In the liquefied petroleum gas (LPG) business, we are considering the creation of additional new businesses in light of an

DATA 3

Third Consolidated Mid-Term Plan: Capital Expenditure Plans

Investments in Strategic Growth Initiatives and to Reinforce the Foundation of Existing Businesses		
¥182.0 billion		
Reinforce oil exploration	Acquire blocks, Expand production in existing blocks	¥24.0 billion
Sales	Increase competitiveness through, among others, investment in self-service stations	¥27.0 billion
Refining	Enhance refineries	¥86.0 billion
	Facility conversion, others	¥20.0 billion
Strategic initiatives	Further expansion of operations	¥25.0 billion

+

Maintenance and Upgrades to Enhance Safety and Reduce Environmental Impact	
¥83.0 billion	
Maintenance and upgrade of refineries and sales facilities	¥83.0 billion
Stable production in existing blocks (oil exploration)	
Maintenance and upgrade of supply facilities	

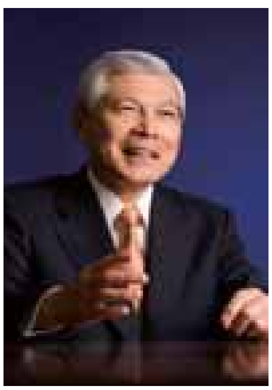
Total ¥265.0 billion

expected increase in production in the Middle East. These projects will include sharing products and technologies with other companies in which IPIC has invested to take advantage of rising demand in Asia.

One result of these efforts was the signing on April 16, 2008, of a memorandum of understanding with Hyundai Oilbank Co., Ltd., a Korean oil refining and sales company that is an IPIC partner, to comprehensively collaborate in the oil business. Under this accord, both parties will optimize their cross-border structures for exchanging petroleum products, semi-processed offerings and petrochemicals. We will jointly market in China and elsewhere around the Asia Pacific. Both groups will collaborate on technologies and assist each other with training for refinery upgrades. We will share information to increase refinery efficiencies and lower costs, thus enhancing the competitiveness of both parties.

Moving forward, we will work with IPIC to explore other joint projects that promise to generate synergies.

Q6 To what extent are you committed to CSR management and to shareholder value initiatives under your new management plan?



A6 The plan calls for rebuilding our earnings base and laying the foundation for further growth while at the same time stepping up CSR management.

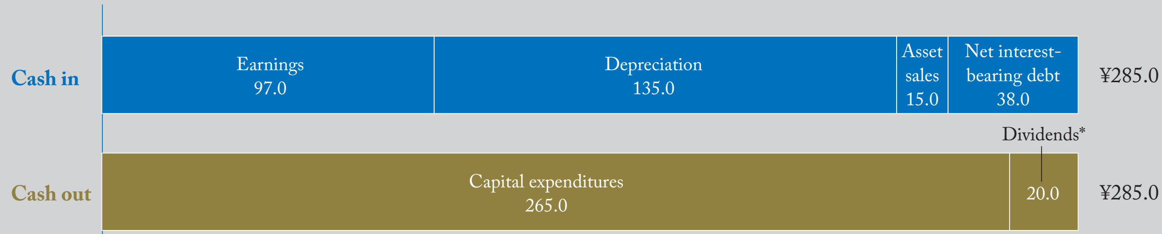
Our mission is to contribute to society by maintaining stable energy supplies. Stakeholder trust is central to good corporate citizenship. We aim to increase shareholder value by building a stable earnings base while meeting our social responsibilities. Satisfying stakeholders and gaining their trust is the basis for sustainable profitability. Our CSR stance is to use our commitment to sincere and transparent management to engage Group employees in stepping up efforts to realize a sustainable society and help safeguard the environment.

Solid shareholder returns are a top management priority. We have maintained stable dividends despite high oil prices and other changes in the operating climate that have greatly affected profitability. Under our current medium-term management plan, we will take advantage of our increased capitalization to keep dividends consistent while investing to secure further growth. At the same time, we will generate sufficient earnings and cash flows to ensure ample shareholder returns. Toward the first quarter of the fiscal year ending March 31, 2011, when we will bring the Sakai refinery's new heavy oil cracking facilities (coker unit) on line, we aim to become a Group that drives progress in keeping with our pledge to enhance shareholder value to the satisfaction of all our investors.

DATA 4

Third Consolidated Mid-Term Plan: Cash Flow Projection

(Billions of yen)



*Assuming annual dividend of ¥8.00/share

Operational Review

Laying the Groundwork for Further Growth

The Cosmo Oil Group has established an integrated business domain that encompasses upstream operations, that is, oil exploration and production; midstream operations, namely, petroleum refining and petrochemicals; and downstream operations, comprising sales of petroleum and petrochemical products. In November 2006, we resolved to build new heavy oil cracking facilities (coker unit) at our Sakai refinery, with a view to bringing this equipment on line by the fiscal year ending March 31, 2011. In addition to this and other efforts aimed at enhancing the competitiveness of our refineries, in the period under review we introduced our Third Mid-Term Consolidated Management Plan. Under this plan, which will guide our efforts for three years, concluding in the fiscal year ending March 31, 2011, we will focus on rebuilding our earnings base and laying the foundation for further growth.

Sakai Refinery

Oil Exploration and Production Business Segment

We have established stable production of crude oil in the United Arab Emirates (UAE) through Abu Dhabi Oil Co., Ltd., and United Petroleum Development Co., Ltd., a company that is accounted for as an equity-method affiliate, and in Qatar through Qatar Petroleum Development Co., Ltd. Despite rising crude oil prices, net sales in the Oil Exploration and Production business segment increased ¥345 million, or 1.1%, from the previous period, to ¥32.3 billion, owing to such factors as a decline in production volume and an increase in maintenance costs, while operating income edged down ¥61 million, or 0.1%, to ¥43.5 billion.

Petroleum Business Segment

We also refine crude oil for sale as petroleum products at four refineries in Japan, as well as produce and sell petrochemical products. In the period under review, net sales in the Petroleum business segment rose ¥457.7 billion, or 15.3%, to ¥3,441.6 billion, and operating income climbed ¥13.6 billion, or 53.2%, to ¥39.3 billion. While we were unable to fully pass on the impact of rising crude oil prices and a resulting increase in costs, effective efforts to boost added value and rationalize operations, among others, combined with the positive impact of inventory valuation gains to push costs down, which resulted in the segment's increase in operating income.

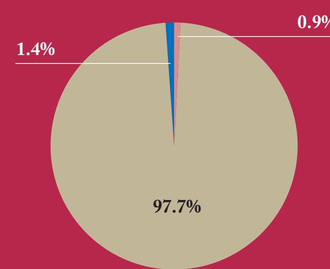
Other Business Segment

This segment encompasses a variety of businesses, including the purchase, sale and rental of real estate premises, the construction and leasing of oil-related facilities, and insurance sales. During the period, we continued to take steps to rationalize and enhance operating efficiency. Reflecting these efforts, net sales in the Other Business segment rose ¥2.3 billion, or 5.0%, to ¥49.3 billion, and operating income advanced ¥963 million, or 59.7%, to ¥2.6 billion.

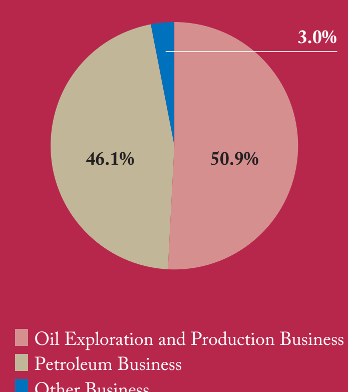
Note: Net sales amounts are adjusted to reflect intersegment sales. Operating income is prior to eliminations and corporate adjustments.

DATA 1

Net Sales (Fiscal 2008)



Operating Income (Fiscal 2008)

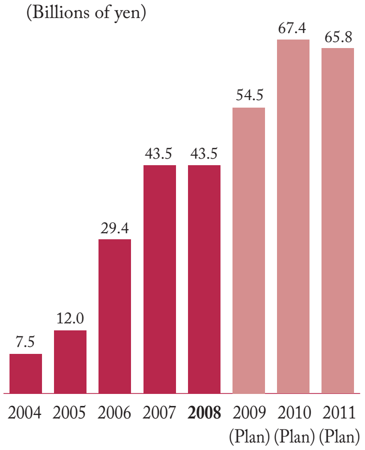


Oil Exploration and Production

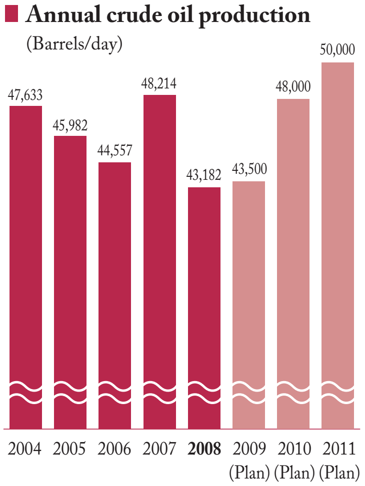
Steady Production in the Middle East

DATA 2

Operating income from oil exploration and production
(Billions of yen)



Annual crude oil production
(Barrels/day)



In line with basic policies of (1) investing in low-risk deals; (2) leveraging our current core production area, namely, Abu Dhabi and Qatar; (3) seeking an early return on cash flow; and (4) concentrating on operations to develop technical knowledge and accumulate experience—we conduct oil exploration and production in the UAE and Qatar.

In the Emirate of Abu Dhabi, we carry out stable exploration and production through Abu Dhabi Oil Co., Ltd., and United Petroleum Development, Co., Ltd., an equity-method affiliate. In Qatar, Qatar Petroleum Development Co., Ltd. is steadily increasing its production volume. In the fiscal year ended March 31, 2008, development efforts by these three companies resulted in daily production of approximately 43,000 barrels.

Net sales of the Oil Exploration and Production business segment in the period under review rose ¥345 million, or 1.1%, to ¥32.3 billion. Segment operating income decreased ¥61 million, or 0.1%, to ¥43.5 billion. Our Third Consolidated Mid-Term Management Plan sets a target for operating income in this business for the fiscal year ending March 31, 2011, of ¥65.8 billion, an increase of ¥22.3 billion, or 51.4%, from the period under review.

In Qatar, we will proceed with the development of an oil field in A-Structure South. We have also concluded an Exploration And Production Sharing Agreement for Block 3, and are currently exploring. If an oil field of a commercially viable size is discovered, we will commence development. We are also looking at opportunities in previously discovered but as yet undeveloped fields in Australia, and in January 2008 we agreed to participate in a project to explore and develop AC/P32, a prospective offshore petroleum block. We will use a 3-D seismic data survey* to map the field precisely and focus on achieving an early shift to commercial production.

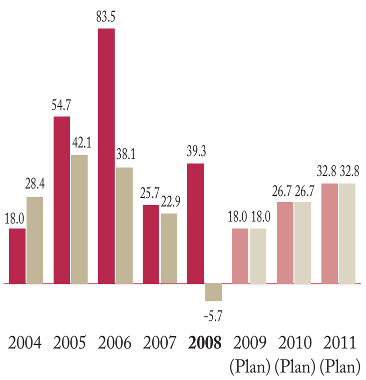
At present, equity crude production accounts for 5% of the Cosmo Oil Group's total imported crude oil by volume. Going forward, we will step up efforts, particularly in the Middle East and Australia—including new projects resulting from our strategic partnership with the International Petroleum Investment Company (IPIC), among others—to achieve an equity oil ratio of 10% over the medium to long term.

*3-D seismic data survey: A method of acquiring seismic data (i.e., waves of elastic energy such as those transmitted by P-waves and S-waves that reflect and refract in the strata of geological structures). Analyzing the observed seismic data helps to identify characteristics of subsurface geological structures that are helpful in identifying the presence of crude oil and natural gas deposits.

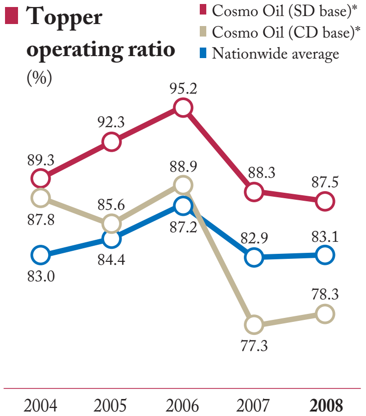
Petroleum Business (Petroleum Refining)

DATA 3

■ Petroleum business operating income
■ Operating income excluding the impact of inventory valuations
(Billions of yen)



■ Topper operating ratio
(%)



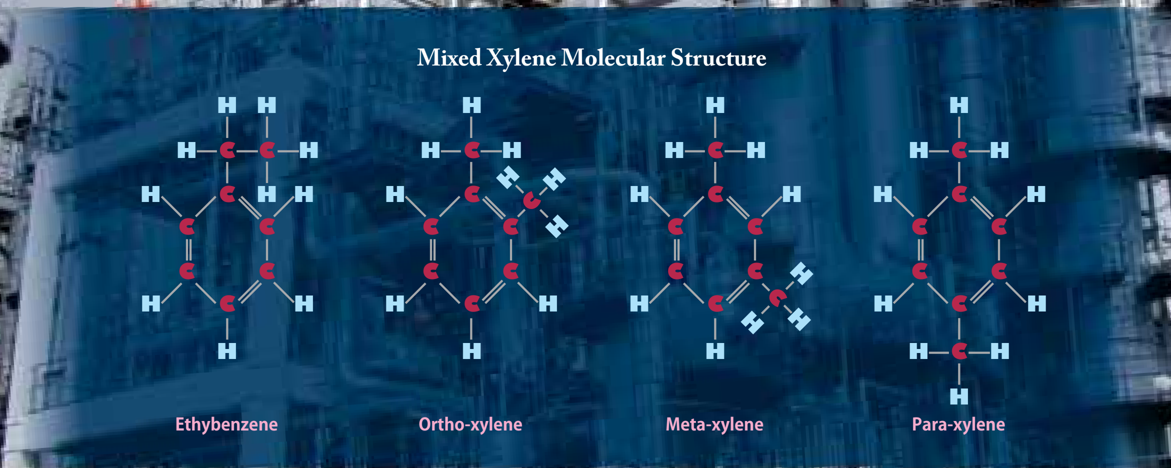
*Stream day (SD) base indicates calculations based on the number of operating days. CD base is calculated using the number of calendar days.

Ideally Located to Optimize Refining and Marketing Structures and to Realize Advanced Refineries

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. In the fiscal year ended March 31, 2008, the Petroleum business segment generated net sales of ¥3,441.6 billion, an increase of ¥457.7 billion, or 15.3%, and operating income of ¥39.3 billion, up ¥13.6 billion, or 53.2%. In actual terms, however, after factoring out an inventory valuation gain of ¥45.0 billion, the segment posted an operating loss of ¥5.7 billion. This loss reflected deteriorating product margins and an increase in in-house fuel costs—a consequence of rising crude oil prices—as well as a sharper than expected decline in domestic demand for petroleum products, as sluggish domestic vehicle sales and rising prices pushed down demand for gasoline and spurred a shift from heavy fuel oil C to liquefied natural gas (LNG) and other energy sources. Our Third Consolidated Mid-Term Management Plan sets a target for operating income in this segment, which includes the petrochemicals business, for the fiscal year ending March 31, 2011, of ¥32.8 billion, a decrease of ¥6.5 billion, or 16.5%, from the period under review. This target represents a ¥38.5 billion increase from our result in the period under review excluding the impact of valuation gains.

In refining operations, we continued working to ensure safe, stable supplies, while at the same time responding to waning demand for heavy fuel oil A and C. To these ends, in the period under review we resolved to install heavy oil cracking facilities (coker unit) at our Sakai refinery, with a view to bringing this equipment on line by the first quarter of fiscal 2011. By handling heavier feedstock, which is relatively inexpensive, we will benefit from the price differential between the grades, enabling us to reduce costs. Additionally, the conversion of heavy fuel oil into high-value-added light distillates, including naphtha and diesel fuel, will allow us to benefit from an increase in the weight of higher-priced offerings in our product mix, thereby improving margins. Such moves will enable us to respond to shifts in the demand structure, as well as lower procurement costs and increase production of value-added products, thereby reinforcing the competitiveness of our refineries. Marketing efforts for such products will target high-demand overseas markets, enabling us to maintain operating rates at our refineries while preventing any disruption of domestic supply-demand balance. Our segment forecasts assume an annual improvement in operating income of ¥9.9 billion after the new heavy oil cracking facilities (coker unit) go into operation in the first quarter of fiscal 2011.

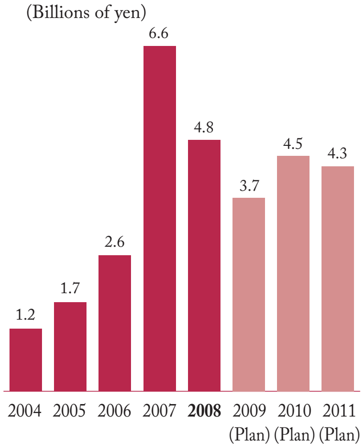
Notes:
1. Crack spread: Price differential between heavy and light crude oil; increasing capacity for cracking heavy oil improves a refinery's competitiveness.
2. Heavy/light spread: Price differential between light petroleum products, i.e., kerosene and diesel oil, and heavy products, i.e., heavy oil; increasing the percentage of higher-value-added "light" products in a refinery's product mix can improve its competitiveness.



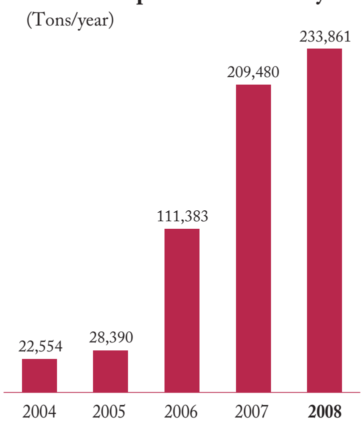
Petroleum Business (Petrochemicals)

DATA 4

■ **Petrochemical business operating income**
(One component of petroleum business segment operating income)



■ **Annual shipments of mixed xylene**
(Tons/year)



Establishing Annual Production of 300,000 Tons of Mixed Xylene

Wholly owned subsidiary Cosmo Matsuyama Oil Co., Ltd., and joint venture CM Aromatics Co., Ltd., owned 65% by Cosmo Oil and 35% by Maruzen Petrochemical Co., Ltd., are engaged in the production of mixed xylene. Cosmo Oil provides the raw materials for mixed xylene and the companies produce, store and sell the product. At present, the two companies have a combined annual production capacity of 300,000 tons.

Used in polyester fibers and polyethylene terephthalate (PET) bottles, mixed xylene is enjoying increasingly high demand in Asia. As mixed xylene and gasoline are made from the same raw material, consideration is given to market conditions and the supply-demand balance for both in an effort to maximize Group profits. At the same time, against a background of declining domestic demand for petroleum products, using the same raw material to produce mixed xylene as a new, value-added product enables us to maintain capacity utilization rates at refineries as well as diversify our profit sources.

In the fiscal year ended March 31, 2008, margins shrank, owing to rising raw materials prices. As a consequence, operating income fell ¥1.8 billion, or 27.3%, to ¥4.8 billion. Our Third Consolidated Mid-Term Management Plan sets a target for operating income in this business for the fiscal year ending March 31, 2011, of ¥4.3 billion, a decline of ¥500 million, or 10.4%, from the period under review.

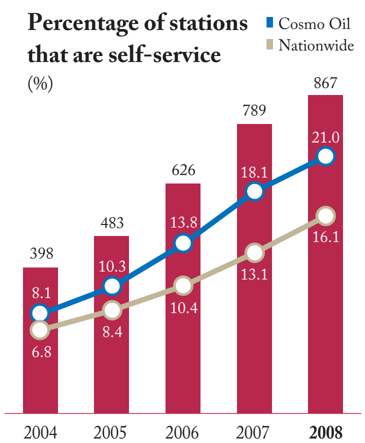
Within the petrochemical business, CM Aromatics conducts stable production. At the same time, we are deepening our partnership with Maruzen Petrochemical and—having recognized the upgrading of petrochemical production facilities as a priority task—are exploring the possibility of integrating production plans and pooling major investments. By continuing to promote such ambitious efforts to optimize production of petroleum products and petrochemical raw materials, CM Aromatics and Maruzen Petrochemical strive to further increase added value and efficiency and enhance their earnings capabilities.

Petroleum Business (Petroleum Sales)

DATA 5

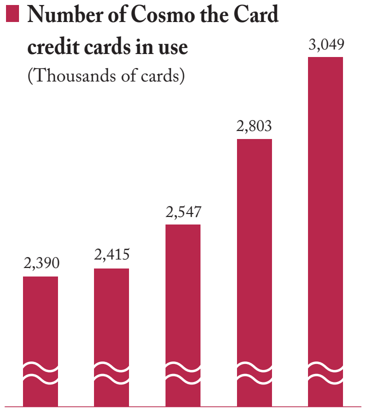
Cosmo Oil self-service stations
(Number)

Percentage of stations that are self-service
(%)



Source: Number of service stations registered under the Bill for Ensuring the Quality of Public Works

Number of Cosmo the Card credit cards in use
(Thousands of cards)



Enhance Profitability of Domestic Sales and Expand Overseas Sales

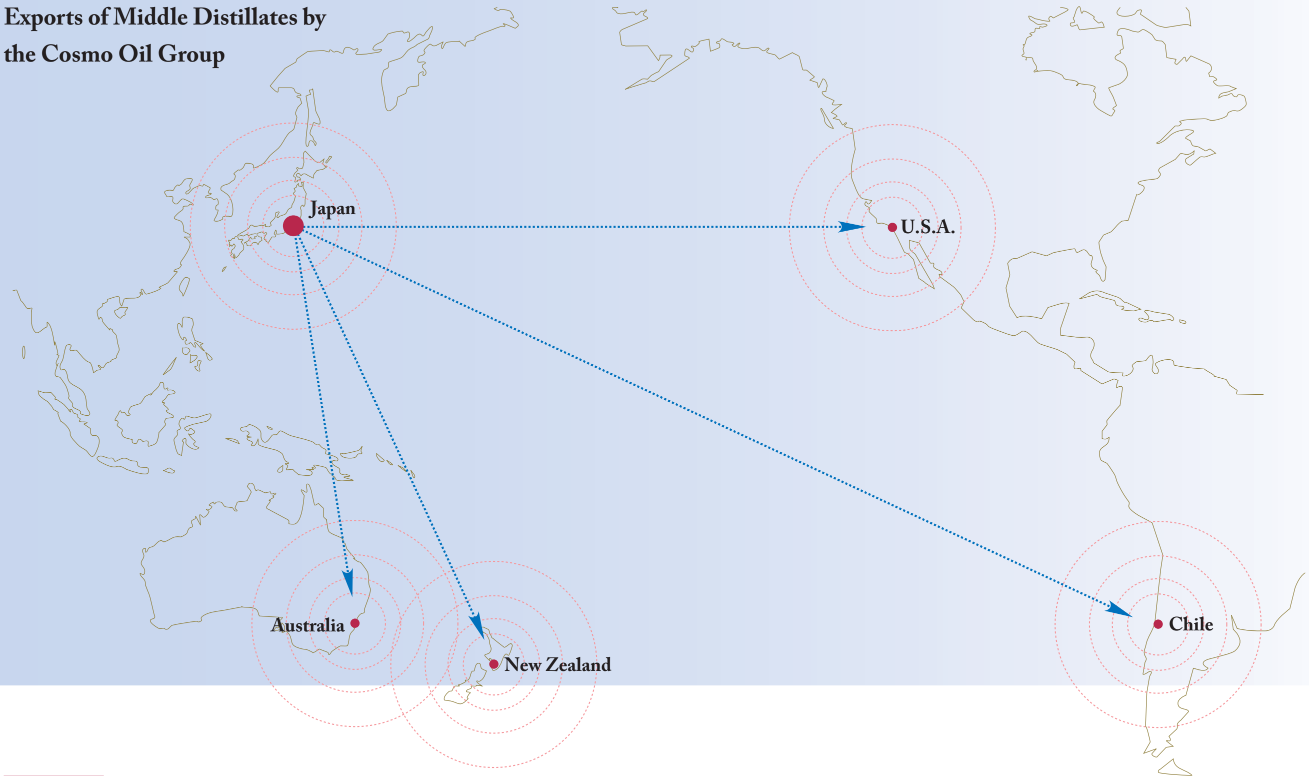
With refineries located near the major consuming regions of Tokyo, Osaka and Nagoya, the Cosmo Oil Group is ideally positioned to conduct integrated refining and marketing operations. The petroleum business is our core business. Parent company Cosmo Oil sells petroleum products directly to large users and wholesales them to exclusive agents*, who sell them to retail customers. Our retail arm, wholly owned subsidiary Cosmo Oil Sales Corp., functions like an independent service station operator, purchasing petroleum products from Cosmo Oil for sale through the service stations it operates.

The operating environment for petroleum sales is changing rapidly. In Japan, we are seeing significant shifts in the demand structure, reflecting such factors as a declining birthrate and the rapid aging of the population and an attendant slowdown in vehicle sales, and a shift to other energy sources by electric power firms. As a consequence, a decline in domestic demand for petroleum products is unavoidable. In contrast, soaring demand and firm market conditions continue to enhance the prospects of sales channels in overseas markets. Accordingly, we have identified the restructuring of our domestic earnings portfolio and expansion of overseas sales, that is, exports, as vital.

Under our Third Consolidated Mid-Term Management Plan, we are addressing three challenges in the area of domestic sales with the aim of securing a high-quality market share, which are to build a robust brand and a sales network, open more new self-operated service stations and issue more credit cards, and make our service stations more competitive. To these ends, we will increase the share of total sales accounted for by sales routes that guarantee favorable margins, namely, sales subsidiary Cosmo Oil Sales, and core Cosmo Oil-branded operators—local independent dealers who understand our strategy and partner with us. We will also increase the share of total sales accounted for by our highly-profitable self-operated service stations, which currently rank second in the industry in Japan, from the current 21% to 30%, and at the same time take steps to increase issuance of Cosmo the Card credit cards, which help newly established service stations transform first-time visitors into regular customers. Through such measures, we will endeavor to enhance the profitability of domestic sales.

*Exclusive agents: Distributors with which Cosmo Oil has concluded contracts to provide a continuous, stable supply of products for retail sale through service stations.

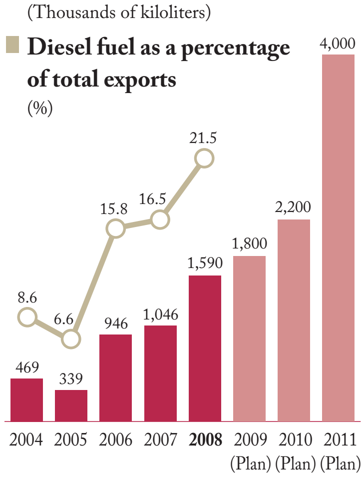
Exports of Middle Distillates by the Cosmo Oil Group



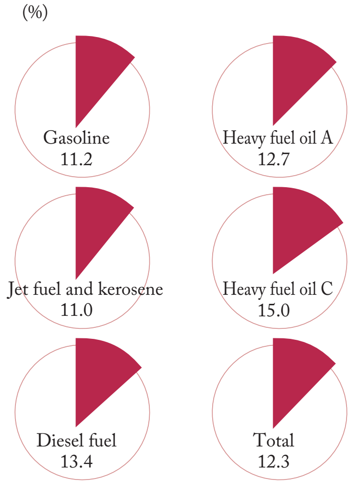
DATA 6

■ **Exports of middle distillate**
(Thousands of kiloliters)

■ **Diesel fuel as a percentage of total exports**
(%)



■ **Fuel oil market share (Japan)** (Fiscal 2008)
(%)



Overseas, we are actively cultivating sales channels in the Pacific Rim, including the west coast of North America and Oceania. Leveraging the outstanding quality of petroleum products refined in Japan, we are targeting exports to markets where particularly stringent environmental regulations mean quality is a crucial factor. In May 2007, for example, we commenced wholesaling of diesel fuel, underscoring our efforts to capitalize on demand by securing stable sales channels and expand sales.

Our Third Consolidated Mid-Term Management Plan calls for us to boost annual exports of petroleum products—1,591,000 kiloliters in the fiscal year ended March 31, 2008—to 4,000,000 kiloliters in the fiscal year ending March 31, 2011, an increase of 2.5 times. In addition to current export markets, we will step up exports to South America and endeavor to cultivate sales channels in the high-growth Chinese and other markets. As a consequence, in the fiscal year ending March 31, 2011, we expect exports to account for approximately 20% of total sales of the four types of fuel oil we sell both in Japan and overseas, namely, gasoline, kerosene, diesel fuel and heavy fuel oil A. Through these and other efforts to promote the expansion of overseas sales, we will strive to secure robust profits.

The heavy oil cracking facilities (coker unit) currently under construction at the Sakai refinery are expected to support an improvement in refining margins. Through efforts to build a powerful domestic sales network and expand exports, we will continue working to reinforce the profitability of our petroleum refining and sales operations.

Note: Facilities and Production Capacity

• Facilities	Processing Capacity
Heavy oil cracking facilities (coker unit)	25,000 barrels/day
Diesel fuel distilling facilities	25,000 barrels/day
Naphtha distilling facilities	17,000 barrels/day

• Production Capacity	
Naphtha	250,000 kiloliters/year
Jet fuel	700,000 kiloliters/year
Diesel fuel	350,000 kiloliters/year
Petroleum cokes	400,000 tons/year

ALA Molecular Structure

Research and Development

Aiming to Become an Environmentally Advanced Company

New Businesses

The Cosmo Oil Group is working to develop products and technologies that have a low environmental impact. One particular focus is 5-aminoleuvulinic acid (ALA), which we are endeavoring to cultivate and grow as a viable new business. ALA is attracting considerable attention for its ability to promote plant growth and as a remedy for skin cancer.

In 2001, Cosmo Seiwa Agriculture Co., Ltd., succeeded in commercializing a liquid fertilizer containing ALA produced using a proprietary fermentation technology. In October 2007, Cosmo Oil made Cosmo Seiwa a wholly owned subsidiary, thereby facilitating efforts to expand sales overseas.

Our ALA-containing fertilizer is sold under the name PENTAKEEP®. The PENTAKEEP® lineup also includes high-performance PENTAKEEP®-V and PENTAKEEP® super for professional use, as well as PENTA GARDEN®, for use in home gardening. PENTAKEEP® products are currently sold in Japan and Europe. Looking ahead, we intend to expand sales activities in the U.S. and Chinese markets.

We are also exploring the potential of ALA in hair care products and animal feed. In May 2008, we established a joint venture with SBI Holdings, Inc., the activities of which will include developing pharmaceuticals, cosmetics and food products containing ALA.

Petroleum Business

In January 2005, Japan's petroleum industry became a global leader in voluntarily commencing supplies of sulfur-free gasoline and diesel fuel (i.e., with a sulfur content of less than 10 ppm). We continue to conduct R&D in the area of next-generation fuels suitable for homogeneous charge compression ignition (HCCI). In recognition of these efforts, in December 2007 we were selected to receive the Combustion Society of Japan Incentive Award. We are also promoting R&D in the area of biofuels, and our efforts to investigate the behavior of fuels in high-pressure environments are yielding new discoveries.

In the area of oil refining, our production of sulfur-free diesel fuel began in 1999 with our participation in the NEDO-PEC* project. The highly active diesel fuel desulfurization catalysts that we developed during the course of this project led to the installation and mobilization of desulfurization facilities at all of our refineries beginning in the fiscal year ended March 31, 2005. As a consequence, we were able to begin production of sulfur-free diesel fuel without significant capital investment. These efforts have won us several awards.

*NEDO: New Energy and Industrial Technology Development Organization, an independent government institution
*PEC: (Japan) Petroleum Energy Center

DATA 7

Awards won for the development and/or application of diesel fuel desulfurization catalysts

May 2005
Japan Petroleum Institute Award

March 2006
Green Sustainable Chemistry Award

March 2006
Catalysis Society of Japan Award

June 2006
Prize to Distinguished Service of Industry–University–Government Cooperation, awarded by the Ministry of Economy, Trade and Industry

April 2007
The Commendation for Science and Technology by the Minister of Education, Culture, Sports, Science and Technology Prizes for the Science and Technology Development Category

Middle Eastern Milestones

Achieving Further Growth for the Cosmo Oil Group

The Cosmo Oil Group enjoys an ongoing and stable relationship with the UAE in regard to crude oil and petroleum products, and has conducted oil development in the country for four decades. Cosmo Oil has sought to build an even closer relationship with the UAE, and particularly the Emirate of Abu Dhabi, through cultural exchange and cooperation in such areas as education and the environment. We are confident that efforts to further enhance our activities in the Middle East will contribute to strengthening Japan's relations with the region, as well as reinforcing its energy security.

Abu Dhabi today

First Steps

In the summer of 1967, the Emir of Abu Dhabi, His Highness and late president of the United Arab Emirates, Sheikh Zayed bin Sultan Al Nahyan, made the historic decision to open oil concessions to Japan that had heretofore been granted only to European and American interests.

Following this decision, a consortium consisting of Cosmo Oil predecessors Maruzen Oil Co., Ltd., Daikyo Oil Co., Ltd., and Nippon Mining Co., Ltd. (now Japan Energy Corporation), bid for and won an international tender to explore and develop an area off the coast of Abu Dhabi. The concession agreement signed in December 1967 gave the Cosmo Oil Group an important strategic foothold in Abu Dhabi and the region.

As a consequence, the Cosmo Oil Group already had established solid ties with the Emirate of Abu Dhabi before the latter joined together with six other entities to form the UAE in December 1971.

Signing of the concession agreement

December 1967 First Steps

September 1969 Oil Discovered

In January 1968, Maruzen Oil, Daikyo Oil and Nippon Mining jointly established Abu Dhabi Oil Co., Ltd. (Japan) to explore and develop this concession. In a demonstration of the joint venture's advanced exploration capabilities, the Company discovered oil with its first test well in September 1969, and the underground formation was named the Mubarraz Field.

In 1970, Abu Dhabi Oil bought half of British Petroleum's concession to the Al Bunduq oil field on the offshore border of the Emirate of Abu Dhabi and Qatar, and established United Petroleum Development Co., Ltd. (Japan) as the exploration and development company for this concession.

Mubarraz Island today

Oil Discovered

October 1973 The First Oil Shock

Oil Shock

The Fourth Arab-Israeli War, which erupted in October 1973, resulted in the 10 members of the Organization of Arab Petroleum Exporting Countries (OAPEC) raising oil prices by agreeing to cut monthly production by 5%. They continued to supply crude oil to nations friendly to the Arab world as normal, while imposing an embargo on shipments to countries that they deemed hostile. While Japan was considered neutral at the time, oil supplies declined in line with decreased production, creating a supply crisis that was to become known as the First Oil Shock.

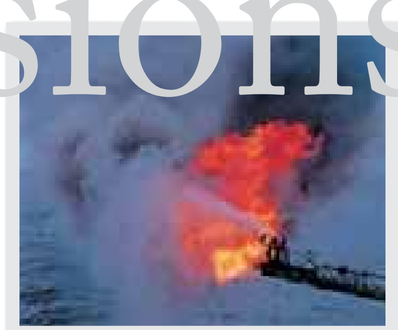
For Japan to secure a stable oil supply, it was necessary to win recognition from OAPEC as a "friendly" nation. With this objective, the Japanese government announced a new pro-Arab policy, and by dispatching important government officials to the Middle East to improve relations, was able to convince OAPEC that Japan was friendly. According to Masanao Kodaka, Japan's former ambassador to the Emirate of Abu Dhabi, Japan was able to persuade the organization to look on Japan as friendly by emphasizing that His Highness Sheikh Zayed bin Sultan Al Nahyan himself had described the nation as such. The existence of Abu Dhabi Oil is thought to have significantly influenced His Highness Sheikh Zayed's favorable characterization of Japan.

April 1979 New Concessions

New Concessions

The 1979 Iranian Revolution halted oil exports from a country that accounted for 10% of global production. The removal of 10% of the total supply from the world market for crude oil precipitated the Second Oil Shock.

While Japan did not suffer as much as it had during the previous oil crisis, the experience once again underscored the nation's need for secure oil supplies. As a consequence, Abu Dhabi Oil signed an agreement with the Emirate of Abu Dhabi in April 1979 for a new concession in the new West Mubarraz Field. The move was tremendously significant for Japan's energy security. In 1982, the company was again successful in discovering oil with its first test well in a new location, which was named the Umm Al Anbar Field, thus enabling it to further expand production in the Middle East.



First test well in the West Mubarraz Field

The Beginning

Given the dramatic changes in the oil industry as a result of the two oil shocks, Abu Dhabi Oil partners Maruzen Oil and Daikyo Oil agreed that a merger was needed to further enhance profitability and operating efficiency. The result of this merger was the birth in April 1986 of Cosmo Oil.

Even after the merger, the political situation in the Middle East remained unstable, as evidenced by the 1991 Gulf War. Circumstances notwithstanding, the Cosmo Oil Group was able to maintain stable oil supplies for Japan by safeguarding its operating bases and continuing development and production.

In addition to continuing operations at the Mubarraz and Umm Al Anbar oil fields, new commercial production was established at the Neewat Al Ghalan Field. These three oil fields continue to ship crude oil to Japan under the Mubarraz Blended Crude name.

Signing ceremony for the joint venture agreement

Yoshiro Nakayama, president of Daikyo Oil (left), and Masahiko Shima, president of Maruzen Oil, shake hands at the press conference held to announce the joint venture

April 1986 The Birth of Cosmo Oil

July 1997 New Horizons

New Horizons

Offshore Qatar Petroleum Development oil platform

In July 1997, the Cosmo Oil Group expanded its oil concessions beyond Abu Dhabi by concluding an Development And Production Sharing Agreement with the Qatar government, thereby securing concessions for oil fields located in Al-Karkara and A-Structure North and a crucial base for further advance in Qatar. This led to the establishment of Qatar Petroleum Development Co., Ltd., which commenced commercial production in March 2006.

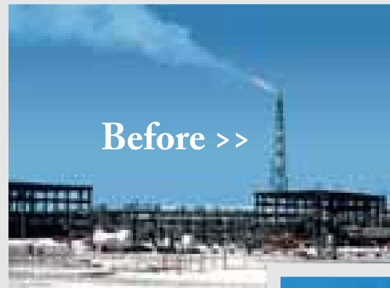
We have continually reinforced our ties with Qatar by investing in Laffan Refinery Co., Ltd., which is part of a major energy and industrial construction project in Qatar's Ras Laffan Industrial City that is being promoted by the Qatar government.

In addition, development is proceeding on the oil field in A-Structure South and we have concluded an Development And Production Sharing Agreement for an oil field in Block 3. This block is in the north offshore area of the Qatar peninsula, right next to many producing oil and gas fields. As a consequence, we are now well positioned to further expand our oil development business in Qatar.

Symbolic of oil exploration, flare stacks are used for burning off gases from crude oil ("flaring"). These gases are harmful to the environment, however, because they contain hydrogen sulfide and carbon dioxide.

As part of efforts to lower the environmental impact of our operations, in May 2001 Abu Dhabi Oil initiated the Zero Flare Project, which has succeeded in eliminating flaring through underground injections of all gas from extracted oil. This initiative has cut the equivalent of 200,000 metric tons annually in carbon dioxide equivalent emissions.

The Zero Flare Project was the first of its kind in the Middle East, and has won accolades from the Abu Dhabi National Oil Company (ADNOC). We also employed gas injection in Qatar when we started production there in 2006, and will continue to minimize the environmental impact of development and production at new oil fields going forward.



Site terminal, Umm Al Anbar oil field before and after launch of the Zero Flare Project

Environment

May 2001 Efforts to Address Environmental Challenges

September 2007 Partnership with IPIC

Alliance

Record oil prices have made independent oil field exploration rights ever more important for natural resource-poor Japan. Nonetheless, we are seeing numerous examples of companies losing independent exploration rights in the Middle East. Accordingly, Cosmo Oil's Middle Eastern ties have become increasingly essential.

Our oil development in the UAE over the past 40 years predates the federation's inception. In light of the UAE's importance as our largest source of oil, we have maintained wide-ranging cultural, educational, and environmental interchange programs and have cultivated a particularly strong relationship with the Emirate of Abu Dhabi.

One fruit of these efforts is a strategic partnership that we concluded with the International Petroleum Investment Company (IPIC)—a company owned

Khadem Al Qubaisi, president of IPIC (left), and Keiichiro Okabe, chairman of Cosmo Oil, shake hands at the signing ceremony for the strategic partnership wholly by the Emirate of Abu Dhabi—in September 2007. A total of 176 million new shares were issued through a third-party allotment to Infinity Alliance Limited, a special-purpose company established by IPIC, as part of the accord, representing around 20% of the Group's issued and outstanding and residual shares.

IPIC has also been acquiring minority interests in energy companies outside the Emirate of Abu Dhabi with the aim of building long-term strategic partnerships. These investments benefit target companies, IPIC and Abu Dhabi by fostering growth. IPIC has invested more than $10 billion in the Middle East, Europe and Asia since its establishment in 1984.

The Cosmo Oil Group and IPIC recognize fully that energy demand in the Asia-Pacific region will continue to rise, that Japan will remain an important strategic market for the UAE, and moreover that the UAE will stay a crucial supplier of oil to Japan. Accordingly, both parties share a common desire to strengthen ties between the two nations through the partnership, and to capitalize on new business opportunities that will drive mutual growth.

Partnership

A Strong and Enduring Partnership

Both the Group and IPIC believe that this strategic partnership will forge an even stronger relationship with the UAE, while at the same time reinforce the Group's ability to maintain stable long-term supplies of oil. We are also convinced that our arrangement with IPIC will enable us to make a greater contribution to the improvement of Japan's energy security than we could on our own.

Moving forward, we will work to further deepen our Middle Eastern ties, particularly with the UAE and Qatar, thereby reinforcing Japan's energy security.

Abu Dhabi today

CSR Magement

Fulfilling Our Corporate Responsibility

The Cosmo Oil Group plays an important role in society by providing stable energy supplies. We believe it is our mission—and our responsibility—to increase the convenience of people's daily lives and to invigorate industry, while at the same time ensuring harmony with society and sustainable development. Fulfilling this mission demands that we derive ongoing economic benefits, and that we do so in a responsible manner. Pursuing an appropriate balance between these two prerequisites enables us to respond to the expectations of our many stakeholders, earn trust and acceptance, and tie our operations to further business activities, thereby increasing our contributions to society. We also recognize this virtuous cycle, which further enhances corporate value while supporting sustainable development, as the essence of CSR management.

(From left) Keiichiro Okabe Keizo Morikawa Naomasa Kondo Satoshi Miyamoto Saeed Al Mehairbi

Directors and Auditors

(As of June 24, 2008)

Chairman
Keiichiro Okabe*

President
Yaichi Kimura*

Executive Vice President
Representative Director
Keizo Morikawa*
Responsible for Personnel Dept., Sales Control Dept., Sales Support 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)

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.

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

(From left) Khalifa Al Romaithi Seizo Suga Kaoru Kawana Kenji Hosaka Yaichi Kimura

Directors

Saeed Al Mehairbi

Khalifa Al Romaithi

Auditors

Yutaka Shimizu

Makoto Suzuki

Hirokazu Ando**

Hajime Miyamoto**

Yoshitsugu Kondo**

(** Independent Auditor)

Senior Executive Officers

Kanesada Sufu
General Manager, Project Development Dept.

Hideto Matsumura
General Manager, Refining & Technology Dept.

Atsuto Tamura
General Manager, Corporate Communication Dept.

Hisashi Kobayashi
General Manager, Sales Control Dept.

Executive Officers

Toshiaki Iwana
General Manager, Yokkaichi Refinery

Hiroaki Fujioka
General Manager, Sakai Refinery

Hirohiko Ogiwara
General Manager, Tokyo Branch Office

Satoshi Nishi
General Manager, Accounting Dept.

Yuji Satake
General Manager, Osaka Branch Office

Katsuhisa Ohtaki
General Manager, Industrial Fuel Marketing Dept.

Isao Kusakabe
General Manager, International Ventures Dept.

Teruyuki Takishima
General Manager, Chiba Refinery

Hideo Suzuki
General Manager, Secretariat Office

Hiroshi Kiriyama
General Manager, Corporate Planning Dept.

Muneyuki Sano
General Manager, Wholesale Marketing Dept.

Basic Stance on Corporate Governance

Our Management Vision sets forth our mission and social responsibilities. The Cosmo Oil Group Corporate Activity Guidelines—our code of conduct—detail how we can satisfy investors and all other stakeholders. Specific goals are to manage operations more transparently and efficiently, implement decisions swiftly, and thoroughly scrutinize risk management and compliance. The Executive Officers' Committee and executive officer system have enabled us to clearly delineate authority and responsibility, while the Board of Directors—which includes external members—and our corporate auditor system have strengthened oversight.

Looking ahead, we will continue to undertake initiatives aimed at enhancing corporate governance as part of our commitment to maximizing shareholder value.

Corporate Governance Structure, Measures and Implementation Status

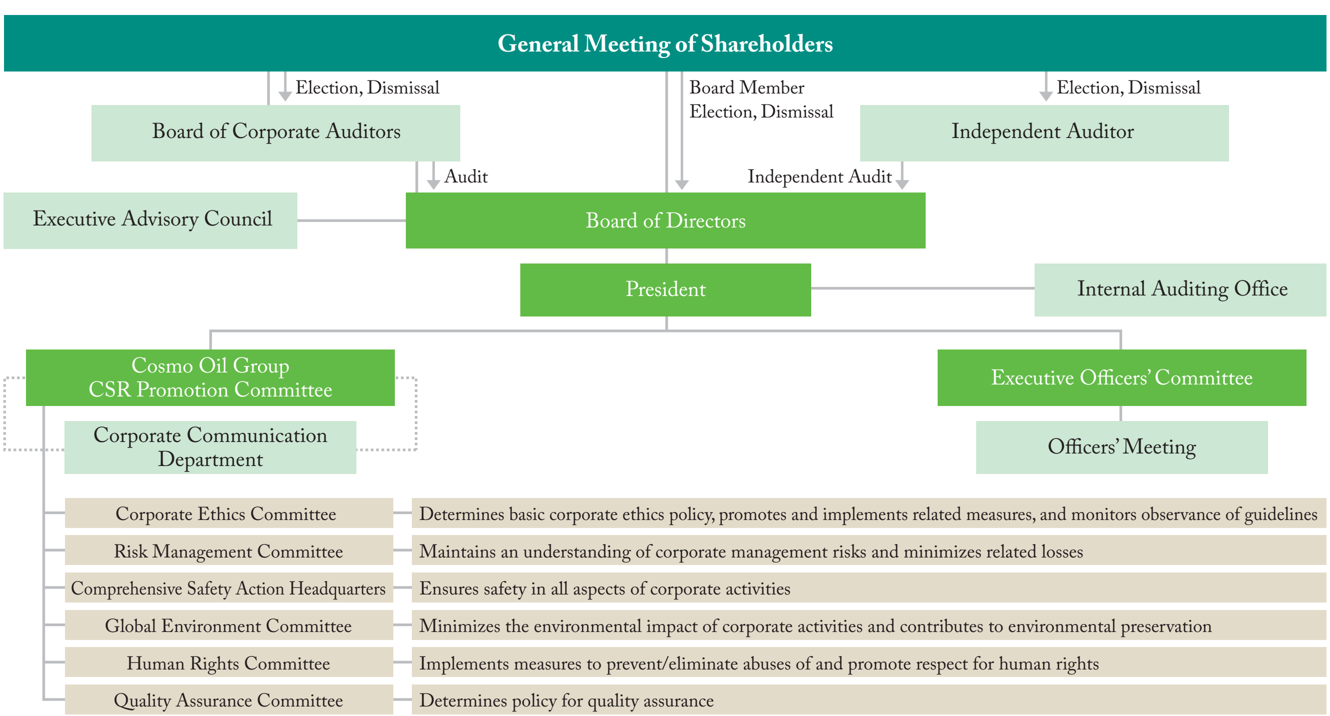
We employ a corporate auditor system. We also have a Board of Directors, an Executive Officers' Committee and Executive Advisory Council. These entities are responsible for, respectively, management decision making and supervision, business execution, and the evaluation of directors' performance. Auditors enhance supervision by attending important gatherings, notably those of the Board of Directors and the Executive Officers' Committee. The independent perspective of external corporate auditors adds rigor to management supervision.

Our executive officer system separates management supervision from business execution and accelerates responses to changes in the operating environment. In tandem with this setup, we created an Officers' Meeting under the Executive Officers' Committee to expedite business and ensure the proper sharing of information Companywide.

• Board of Directors

The chairman heads gatherings that are attended by all directors and auditors, both internal and external. In keeping with Board regulations, this top decision-making organ is responsible for resolving legal and regulatory issues and items in the Articles of Incorporation. The Board also establishes management policy and supervises directors' business activities. In principle, the Board meets once monthly.

Corporate Governance Organization (As of June 24, 2008)



• Executive Officers' Committee

The president chairs this committee, which meets according to Executive Officers' Committee regulations. Directors, executive officers designated by the president and auditors attend these gatherings. This committee is tasked with making decisions concerning the execution of business and deliberating on basic directions and other important matters, in accordance with the basic management policies determined by the Board of Directors. In principle, the committee meets once weekly.

• Executive Advisory Council

This entity is responsible for evaluating the performance of directors and deliberating on the selection of proposed director and auditor candidates, and was established to separate these functions from the other functions of the Board of Directors. The council meets as required.

• Officers' Meeting

In line with the introduction of an executive officer system, we established the Officers' Meeting below the Executive Officers' Committee to ensure the swift execution of business and enhance information sharing Companywide. In principle, this meeting is held once monthly.

• Board of Corporate Auditors

Members of this board attend meetings of the Board of Directors and Executive Officers' Committee, supervise the execution of business activities by Board members and executive officers, and coordinate with internal and external auditors and the auditors of affiliates. Three of the five auditors on the Board are external auditors. Full-time staff members are assigned to assist these individuals in their efforts. In principle, the Board meets once monthly.

External auditors are chosen for their broad expertise. Two of our current external auditors are Hirokazu Ando, formerly an executive officer and general manager of the Group Planning Department at UFJ Holdings Inc., and Hajime Miyamoto, currently chairman of Kansai International Airport Co., Ltd. These individuals were chosen because of their extensive experience in related businesses and because there are no conflicts of interest between them and the Company. Our third external director is Yoshitsugu Kondo, a partner attorney at Sano Kondo Law Offices, with which we have a legal advisory contract. Between April 2007 and March 2008, the Board of Directors met 19 times and the Board of Corporate Auditors convened 15 times.

External Auditor	Board of Directors		Board of Corporate Auditors	
	Meeting Attendance	Attendance Ratio	Meeting Attendance	Attendance Ratio
Hirokazu Ando	19 of 19	100%	15 of 15	100%
Hajime Miyamoto	12 of 19	63%	10 of 15	67%
Yoshitsugu Kondo	19 of 19	100%	15 of 15	100%

Internal Audits

The Internal Auditing Office, which has 11 full-time staff members, confers with the Executive Officers' Committee in implementing assessments based on annual plans. The office evaluates the compliance and efficiency of Group operations and suggests specific improvements. The office submits audit reports to senior management, the Executive Officers' Committee and auditors, shares views with auditors on audit plans and regularly convenes liaison meetings to discuss related issues.

Accounting Audits

In the fiscal year ended March 31, 2008, our accounts were audited independently by KPMG AZSA & Co., in line with Japan's Companies Act and Financial Instruments and Exchange Act. Certified public accountants Takaya Abe, Naoto Yokoi and Hironori Iwamoto were assigned by KPMG AZSA to evaluate our financial data. They exchanged opinions with, and obtained assistance from, our corporate auditors. Five other certified public accountants and six other people also assisted with the audit.

Initiatives to Enhance Corporate Governance

Executive Officer System

In June 2006, we launched an executive officer system to separate management supervision and business execution and facilitate swift responses to changes in the operating environment. The Board of Directors appoints executive officers for one-year terms. The president is accountable for the activities of these officers. The Officers' Meeting, which is below the Executive Officers' Committee, shares information Companywide to enhance operations.

Changes Resulting from Executive Officer System

In deploying our executive officer system, we halved the number of directors on our Board, to 15. Directors now serve for one year instead of two, a change aimed at clarifying management responsibilities and positioning us to promptly address changes in the operating environment. We abolished the associate director system in June 2006.

External Director System

In September 2007, we appointed Saeed Al Mehairbi and Khalifa Al Romaithi to the Board of Directors. Both are senior executives of the International Petroleum Investment Company (IPIC), which invested in Cosmo Oil previously through a third-party share allotment to Infinity Alliance Limited, a special-purpose company established by IPIC. Both of these individuals endeavor to visit Japan for Board meetings or participate by videophone if unable to attend, and by allowing us to harness their perspectives on the global oil industry, are helping us to strengthen our corporate governance. Saeed Al Mehairbi has attended three of four meetings since his appointment, while Khalifa Al Romaithi has been at all four gatherings.

External Director	Meetings Attended	Attendance Ratio
Saeed Al Mehairbi	3 of 4	75%
Khalifa Al Romaithi	4 of 4	100%

CSR Initiatives

We act in keeping with our management philosophy and our social responsibility cornerstones of compliance, people and the environment.

In the fiscal year ending March 31, 2009, we will embark upon a new Consolidated Medium-Term CSR Management Plan. This three-year plan aims to enhance Group CSR, build a stronger safety management system, improve measures to safeguard human rights and enhance personnel policies, promote measures to protect the environment, and reinforce our relationship with stakeholders. We encourage employees to participate voluntarily in this plan with the aim of helping to realize social and environmental sustainability. Employees contributed especially to the formulation of our current consolidated Medium-Term Environmental Plan, which was inaugurated in the period under review. This three-year plan seeks to bolster environmental efficiency and management by strategically tackling global warming risks, as well as by participating in the Ministry of the Environment's Team Minus 6% Project, which aims to lower Japan's greenhouse gas emissions to 6% below 1990 levels by 2012.

In July 2007, we set up a CSR Office within our Corporate Communication Department. The office operates autonomously in driving Groupwide efforts to serve diverse stakeholders and improve corporate governance and helps us to comply with the Companies Act, the Financial Instruments and Exchange Act, and other pertinent legislation. CSR is part of the curriculum in hierarchical and other key training programs. CSR classes encourage participants to consider the specific stakeholders that may be affected by the work they perform.

Internal Control System Initiatives

Internal Control System Fundamentals

We are creating systems to facilitate the implementation of our management vision and corporate action guidelines, and to help our people execute tasks properly and efficiently. Examples include an implementation system for directors and employees and related risk management and internal auditing systems, as well as a system to ensure the effectiveness of audits conducted by our corporate auditors.

Internal Control System Implementation

To push forward our management vision, we established the CSR Committee to oversee Group CSR initiatives and internal governance activities. This committee reports directly to the president and obtains assistance from the Corporate Communication Department. The committee ensures implementation of the Cosmo Oil Group Corporate Action Guidelines and that all corporate activities are legal and ethical.

The CSR Committee also coordinates the activities of the Cosmo Oil Group Corporate Ethics Committee, the Risk Management Committee, the Comprehensive Safety Action Headquarters Committee, the Global Environment Committee, the Human Rights Committee and the Quality Assurance Committee. Implementation committees assist their specific businesses as part of an intensive Companywide focus on CSR initiatives.

In addition to issuing a Cosmo Oil Group Management Vision Card to each employee, we regularly monitor Group executives and employees and conduct Groupwide CSR training to encourage compliance and increase awareness of CSR.

We have set up a corporate ethics helpline to protect the anonymity of whistleblowers and protect them from potential backlashes. The consultation desk in the Customer Center performs a similar function and gathers and uses diverse internal and external information. In line with Board of Directors' and information management regulations and other related rules, we ensure appropriate storage and management of information pertaining to the performance of directors.

Director and Auditor Compensation

In fiscal 2008, remuneration to directors, auditors and our corporate auditors was as follows.

Executive Compensation	
Payments to 10 directors*	¥334 million
Payments to two external directors included in the above	¥4 million
Payments to five auditors	¥100 million
Payments to three independent auditors included in the above	¥46 million
Total	¥434 million

Auditor Compensation	
Payment for verifying audits**	¥61 million
Other payments	¥20 million
Total	¥81 million

*Payments to directors exclude employee bonuses paid to directors who are also employees.
**Auditor compensation is as stipulated in Paragraph 1, Article 2, of the Certified Public Accountants Law.

Revisions to the Executive Compensation System

We revised our executive compensation system in June 2006 to more clearly reflect responsibility for management performance and increase fairness and transparency.

(1) Abolished the Executive Retirement Allowance System

As of the end of the Ordinary General Meeting of Shareholders in June 2006, we terminated a system that provided executive retirement bonuses regardless of operating performance, and consolidated executive compensation.

(2) Implemented an Operating Performance-Linked Executive Compensation System and Established Share Acquisition Guidelines

We replaced the executive retirement allowance system with a director and executive officer compensation setup that reflects operating performance. We also created share acquisition guidelines to encourage efforts to drive long-term gains in shareholder value.

(3) Implemented an Operating Performance-Linked Bonus System

We base bonuses for directors and executive officers on our Third Consolidated Mid-Term Management Plan and on consolidated net income.

Environmental Cooperation and Contribution Activities in Fiscal 2008

Group management faithfully pursues corporate governance and compliance. Other important aspects of our CSR commitment are our efforts to contribute to society as a good corporate citizen and raise our brand value by becoming attractive to all stakeholders. Regardless of changes in the business climate, we pledge to ensure long-term, innovative contributions to society and the environment with the involvement of our employees.

Activities for Children, the Environment and Society

Recognizing the inextricable links between our business activities and motor vehicles, we sponsor the annual Cosmo Waku Waku Camp, an initiative that began in fiscal 1993. Run by employee volunteers, this outdoors program is for elementary school-age children who have lost parents in vehicular accidents. In fiscal 2002, we founded the Cosmo Children's Earth School, which offers experiential programs that foster healthy development and environmental awareness. One of these is the Children's Natural Art Workshop, which in fiscal 2008 featured the Sense of Nature course by Nils-Udo, a world-renowned environmental artist. Another ongoing offering was Cosmo Painting Kids, an ongoing art therapy program established in fiscal 2004 for children being cared for in children's homes.

Cosmo Oil Eco Card Fund

Fiscal 2008 marked the seventh year of our "Living with Our Planet" project. Funding comes from annual contributions of ¥500 each from the approximately 86,600 people who have Cosmo the Card Opus "Eco" and Cosmo the Card "Eco." We also contribute money to these projects, which we manage through the Cosmo Oil Eco Card Fund.

We work with customers, nongovernment and nonprofit organizations, communities and governments to help stem the global warming that results from the use of oil. We are participating in initiatives to ensure sustainable development in emerging nations that rising carbon dioxide emissions most affect and to educate children, as the earth's future stewards, about the environment.

In April 2006, we began a project near Furano, Hokkaido, to educate the public about the environment and provide seedlings for afforestation programs. In fiscal 2008, the project supplied about 5,320 spruce and oak saplings to nonprofit organization C.C.C. Furano Field ("C.C.C." is an acronym for "Creative Conservation Club") and to The Hokkaido Mountain Village Forestation Association, bringing the total number of saplings provided to around 36,000. During the year, 563 people participated in the Furano Eco Tour and other programs. We will continue to engage in activities that educate and enlighten so people feel closer to nature.

15th Annual Cosmo Waku Waku Camp
The Cosmo Children's Earth School offers experiential programs that foster environmental awareness.

Supplying Saplings for Forestation Programs
In fiscal 2006, we launched a project near Furano, Hokkaido, to provide environmental education through activities to grow and plant saplings.

Supporting South Pacific Nations
Since fiscal 2003, we have supported the Republic of Kiribati, Tuvalu and other Pacific island nations suffering from rising sea levels as a result of global warming by helping them restore their mangrove systems and otherwise protect the environment.

Financial Section

Contents

Consolidated 11-Year Summary

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

	1998	1999	2000	2001	2002
For the Year:					
Net sales	¥1,680,478	¥1,443,457	¥1,584,678	¥1,845,842	¥1,813,838
Petroleum	N.A.	N.A.	N.A.	N.A.	1,746,659
Oil exploration and production	N.A.	N.A.	N.A.	N.A.	10,856
Other	N.A.	N.A.	N.A.	N.A.	56,323
Cost of sales	1,473,349	1,265,443	1,427,640	1,664,757	1,659,438
Selling, general and administrative expenses	179,228	155,154	140,373	144,503	132,343
Operating income	27,901	22,860	16,665	36,582	22,057
Inventory valuation gain (loss)	N.A.	N.A.	N.A.	13,800	(9,000)
Operating income excluding the impact of inventory valuations	N.A.	N.A.	N.A.	22,782	31,057
Income (loss) before income taxes and minority interests	14,466	4,351	13,313	22,460	(1,881)
Net income (loss)	5,340	839	4,841	8,674	(5,190)
Depreciation and amortization	34,228	21,773	23,436	24,672	23,492
Capital expenditures	34,175	31,325	22,593	17,108	25,430
Research and development costs	N.A.	N.A.	4,567	3,566	3,805
Cash flows from operating activities	64,558	17,718	(42,698)	58,824	76,646
Cash flows from investing activities	(59,532)	(17,806)	13,538	27,348	(13,944)
Cash flows from financing activities	(5,295)	(14,592)	31,271	(87,229)	(88,546)
At Year End:					
Total assets	1,277,022	1,229,285	1,294,843	1,319,960	1,242,171
Shareholders' equity	190,716	186,496	179,536	177,773	194,303
Interest-bearing debt	652,769	641,562	687,563	610,686	548,653
Amounts per Share:					
Net income (loss) per share	¥ 8.45	¥ 1.33	¥ 7.76	¥ 13.81	¥ (8.24)
Shareholders' equity per share	301.91	295.23	286.75	282.09	308.65
Cash dividends	8.00	6.00	6.00	6.00	6.00
Ratios:					
ROA (%)	0.4	0.1	0.4	0.7	–
ROE (%)	2.8	0.4	2.6	4.9	–
Interest-bearing debt ratio (%)	51.1	52.2	53.1	46.3	44.2
Debt-to-equity ratio (Times)	3.4	3.4	3.8	3.4	2.8

Notes:

1. U.S. dollar amounts are translated from Japanese yen, for the convenience of readers only, at the rate of ¥100.19 to US$1.00, the approximate rate of exchange prevailing at March 31, 2008.
2. Effective from the fiscal year ended March 31, 2003, the Company adopted a new standard for earnings per share; prior-year figures have not been restated.
3. Effective from the year ended March 31, 2001, the gross average method has been used for inventory valuation.
4. The Company began reporting R&D expenses in the fiscal year ended March 31, 2000.
5. Effective from the fiscal year ended March 31, 2007, shareholders' equity is calculated as total net assets minus minority interests.
6. Up to and including the fiscal year ended March 31, 2006, total shareholders' equity per share was presented rather than net assets per share.
7. Up to and including the fiscal year ended March 31, 2006, ROE was calculated as net income divided by total shareholders' equity.
8. Up to and including the fiscal year ended March 31, 2006, the debt-to-equity ratio was calculated using total shareholders' equity.

					Millions of yen	Thousands of U.S. dollars
2003	2004	2005	2006	2007	**2008**	**2008**
¥1,902,768	¥1,916,278	¥2,154,559	¥2,670,628	¥3,062,744	**¥3,523,087**	**$35,164,058**
1,830,940	1,862,554	2,104,737	2,616,887	2,983,900	**3,441,558**	**34,350,314**
9,773	12,950	11,544	17,030	31,905	**32,250**	**321,889**
62,055	40,774	38,278	36,711	46,939	**49,279**	**491,855**
1,754,853	1,758,858	1,956,160	2,422,272	2,852,242	**3,290,688**	**32,844,475**
123,748	132,174	132,701	137,108	140,859	**148,602**	**1,483,202**
24,167	25,246	65,698	111,248	69,643	**83,797**	**836,381**
17,300	(9,500)	12,600	45,400	2,800	**45,000**	**449,147**
6,867	34,746	53,098	65,848	66,843	**38,797**	**387,234**
12,966	17,592	47,533	120,393	71,243	**95,561**	**953,798**
3,426	8,179	26,415	61,795	26,536	**35,153**	**350,863**
22,843	23,632	24,927	28,313	29,246	**33,240**	**331,770**
24,132	36,573	30,113	31,762	36,126	**48,957**	**488,642**
3,867	3,558	3,635	3,483	3,753	**3,840**	**38,327**
(26,975)	101,827	40,494	(20,685)	25,005	**(4,215)**	**(42,070)**
(12,811)	(32,709)	(36,577)	(1,348)	(35,868)	**(32,806)**	**(327,438)**
10,127	(7,679)	(70,163)	39,608	80,023	**(5,229)**	**(52,191)**
1,246,730	1,260,092	1,323,149	1,463,579	1,579,156	**1,627,904**	**16,248,168**
193,595	204,806	227,897	312,504	339,701	**442,912**	**4,420,721**
562,649	559,259	497,804	522,430	609,890	**521,605**	**5,206,158**
					Yen	U.S. dollars
¥ 5.42	¥ 12.95	¥ 41.73	¥ 94.54	¥ 39.54	**¥ 46.72**	**$0.47**
306.67	324.43	360.93	465.48	506.15	**522.84**	**5.22**
6.00	6.00	8.00	10.00	8.00	**8.00**	**0.08**
0.3	0.7	2.0	4.4	1.7	**2.2**	–
1.8	4.1	12.2	22.9	8.0	**9.0**	–
45.1	44.4	37.6	35.7	38.6	**32.0**	–
2.9	2.7	2.2	1.7	1.8	**1.2**	–

Operating Environment

During the fiscal year ended March 31, 2008, the underlying tone of the Japanese economy was one of gentle recovery, bolstered by robust corporate earnings. Toward the end of the period, however, growth was fettered by concern over soaring crude oil prices and flagging economic conditions in the US economy. Demand for petroleum products in Japan declined as rising gasoline prices and improved vehicle fuel efficiency curbed consumption of gasoline, while a decrease in the number of vehicles owned pushed down demand for diesel fuel and a shift to other energy sources, coupled with the progress of energy-saving initiatives, hampered demand for kerosene and heavy fuel oil A.

In the range of $63/barrel at the beginning of the period, the price for Dubai crude soared thereafter, averaging $77/barrel, up $17 from the previous fiscal year, finishing the year at $97/barrel. Gains were propelled by firm demand, particularly in China and the Middle East, as well as by the declining value of the U.S. dollar against other major currencies—fueled by fears over slowing growth in the U.S. economy—and the accompanying influx of funds into commodities markets, and political unrest in the Middle East and Africa.

In the foreign exchange market, the Japanese yen was at ¥117=$1.00 at the beginning of the period. U.S. economic growth supported the appreciation of the dollar until late July, when the uncertainty triggered by the subprime loan crisis caused a significant drop in the value of the currency, which finished out the period at ¥99=$1.00. In Japan, the market for petroleum products reflected the impact of persistently high crude oil prices, which pushed up prices for gasoline, diesel fuel and kerosene at service stations and selling prices for industrial fuels.

On September 18, 2007, Cosmo Oil Co., Ltd., and the International Petroleum Investment Company (IPIC), an investment firm wholly owned by the Emirate of Abu Dhabi, agreed to a strategic partnership to promote energy businesses in Japan and elsewhere in Asia and the Pacific Rim region. As a consequence, Cosmo Oil resolved to issue 176 million new shares of common stock—equivalent to approximately 20% of shares outstanding in the Company, including residual shares. The issue was priced at ¥510 per share and allocated to Infinity Alliance Limited, a special-purpose company established by IPIC, via third-party allotment. The total amount of the issue was ¥89.8 billion.

Results of Operations

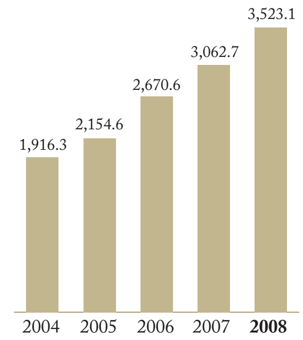
NET SALES

Consolidated net sales in the period under review amounted to ¥3,523.1 billion, an increase of ¥460.3 billion, or 15.0%, from the previous period.

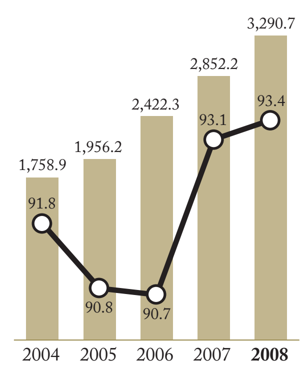
In the Petroleum business segment, sales of petroleum, including exports, totaled 44,961,000 kiloliters, an increase of 344,000 kiloliters, or 0.8%. Demand for kerosene and heavy fuel oil A were hampered by the progress of energy-saving initiatives and a shift to other energy sources, while soaring crude oil prices restrained demand. In contrast, demand for heavy fuel oil C increased, as declining operating rates at Japan's nuclear power stations boosted demand for use in power generation. The Company also actively promoted exports, particularly of diesel fuel. As a consequence, segment sales increased ¥457.7 billion, or 15.3%, to ¥3,441.6 billion.

In the Oil Exploration and Production segment, net sales edged up ¥345 million,

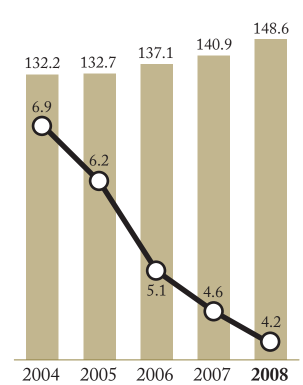
Net sales
(Billions of yen)



Cost of sales
(Billions of yen)
Cost of sales ratio
(%)



SG&A expenses
(Billions of yen)
SG&A expenses ratio
(%)



or 1.1%, to ¥32.3 billion, as higher oil prices countered the impact of a decline in sales volume.

OPERATING INCOME

Operating income rose ¥14.2 billion, or 20.3%, to ¥83.8 billion. The principal factor behind this result was a difference in the valuation of inventories using the weighted average method, which generated a ¥45.0 billion valuation gain, compared with a ¥2.8 billion valuation gain in the previous period. After factoring out inventory valuations, however, operating income would have been ¥38.8 billion, down ¥28.0 billion, or 42.0%.

In the Petroleum business segment, market conditions for petroleum and petrochemical products deteriorated against a backdrop of rising crude oil prices, as a time lag between cost increases and sales price hikes resulted in a delay in passing on the impact of higher costs. In-house fuel costs at refineries and costs for reinforcing safety procedures and maintaining public trust also increased. Nonetheless, a sharp rise in demand and expanded efforts to boost exports to robust overseas markets, the favorable impact of measures implemented in line with the Company's Second Consolidated Mid-Term Management Plan to rationalize operations and add value—which yielded income in line with expectations—and the aforementioned significant increase in inventory valuation gains contributed to an expansion in segment operating income of ¥13.6 billion, or 53.2%, to ¥39.3 billion. In the Oil Exploration and Production business segment, operating income declined ¥61 million, or 0.1%, to ¥43.5 billion, reflecting a decline in production volume, an increase in maintenance costs and the impact of unfavorable exchange rates.

The operating margin improved by 0.1 percentage point, to 2.4%, owing to the aforementioned inventory valuation gain. (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 period.)

OTHER INCOME (EXPENSES)

Other income (expenses) rose ¥10.2 billion, to a net surplus of ¥11.8 billion, owing largely to a ¥1.6 billion increase in interest and dividend income, to ¥3.5 billion, and a ¥6.0 billion increase in foreign currency exchange gain, net to ¥8.9 billion.

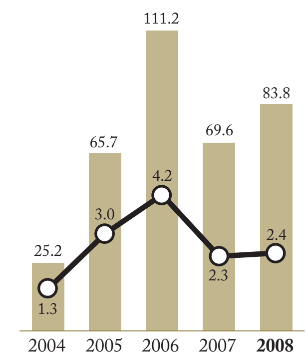
In contrast, equity in earnings of affiliates declined ¥1.3 billion, to ¥8.7 billion. Affiliate United Petroleum Development Co., Ltd., reported falling petroleum production and sales volume, while the performance of Maruzen Petrochemical Co., Ltd., reflected deteriorating conditions in the market for petrochemical products. Both companies reported shrinking margins and declines in income.

A net gain on the sale and disposal of property, plant and equipment included a ¥5.4 billion gain arising from the sale of the Company's share in a pier owned jointly with Shikoku Electric Power Co., Ltd., as a consequence of construction at the Sakaide refinery. The Company also recorded a ¥3.2 billion gain on abolishment of retirement benefit plan, owing to a change in its retirement benefit system. The Company also posted an impairment loss on fixed assets of ¥4.5 billion for land that had become idle following the closure of service stations, among others.

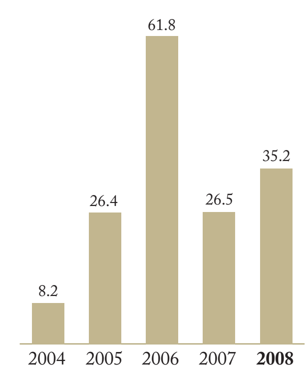
NET INCOME

Income before income taxes and minority interests rose ¥24.3 billion, or 34.1%, to ¥95.6 billion. Current income taxes, comprising corporate, residence and other

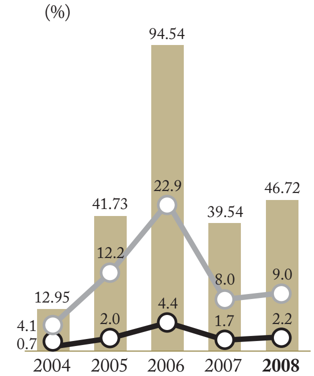
■ Operating income
(Billions of yen)
■ Operating margin
(%)



■ Net income
(Billions of yen)



■ Earnings per share
(Yen)
■ ROA
■ ROE
(%)



business taxes, totaled ¥48.0 billion, while deferred income taxes were ¥7.1 billion. The Company's tax burden increased ¥16.4 billion, to ¥55.1 billion. The effective tax rate for the Group, after the application of tax-effect accounting, was 57.6%.

Consolidated net income, after adjustment for income taxes of ¥55.1 billion and minority interests of ¥5.3 billion, amounted to ¥35.2 billion, an increase of ¥8.6 billion, or 32.5%.

Return on assets (ROA) improved 0.5 percentage point, to 2.2%. Return on equity (ROE) rose 1.0 percentage point, to 9.0%.

BUSINESS SEGMENT INFORMATION

• *Petroleum*

In the period under review, sales in the Petroleum business segment increased ¥457.7 billion, or 15.3%, to ¥3,441.6 billion. Supporting this increase, fuel oil sales, in terms of volume, rose 344,000 kiloliters, or 0.8%, to 44,961,000 kiloliters, while sales prices advanced ¥10,310/kiloliter, to ¥62,560/kiloliter, in line with rising crude oil prices.

Domestic sales of fuel oil were mixed, a reflection of rising sales prices and a shift by users to other energy sources. Sales of heavy fuel oil A, jet fuel, kerosene and naphtha declined 13.8%, 7.0%, 3.1% and 2.3%, respectively, while sales of gasoline, diesel fuel and heavy fuel oil C rose 0.5%, 1.7% and 35.3%, respectively. Higher sales of heavy fuel oil C were attributable to an increase in demand for use in power generation following a decline in operating rates at nuclear power stations.

Exports increased 544,000 kiloliters, or 52.0%, to 1,590,000 kiloliters. During the period, the Company focused on expanding exports of sulfur-free diesel fuel and other middle distillates to the west coast of North America, Oceania and other Pacific Rim destinations to counter the impact of falling demand in the domestic market and maximize margins.

Operating income in the Petroleum business segment rose ¥13.6 billion, or 53.2%, to ¥39.3 billion. Margins shrank as the Company was unable to fully pass on the impact of rising rude oil prices, and refinery maintenance costs amounted to ¥9.6 billion. Nonetheless, effective efforts to increase rationalize operations and add value, and the positive impact of an inventory valuation gain, which totaled ¥45.0 billion, compared with ¥2.8 billion in the previous period, combined to support an increase in operating income. After factoring out inventory valuations, however, the segment would have reported an operating loss of ¥5.7 billion.

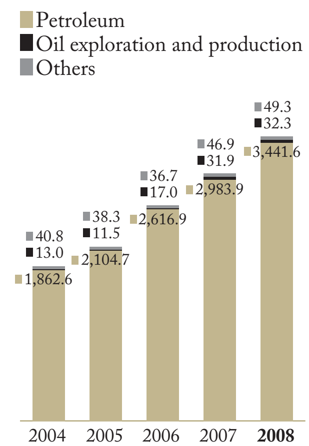
• *Oil Exploration and Production*

Sales in the Oil Exploration and Production business segment were held to an increase of ¥345 million, or 1.1%, to ¥32.3 billion, owing to rising crude oil prices. Operating income edged down ¥61 million, or 0.1%, to ¥43.5 billion, owing to a decline in production volume and an increase in maintenance costs and the impact of unfavorable exchange rates.

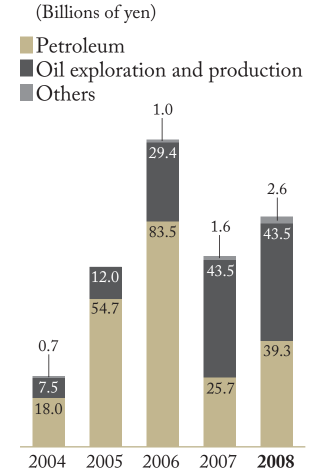
• *Other*

This segment encompasses a variety of businesses, including the purchase, sale and rental of real estate premises, the construction and leasing of oil-related facilities, and insurance sales. During the period, ongoing steps to rationalize and enhance operating efficiency contributed to an increase in net sales of ¥2.3 billion, or 5.0%, to ¥49.3 billion. Operating income advanced ¥963 million, or 59.7%, to ¥2.6 billion.

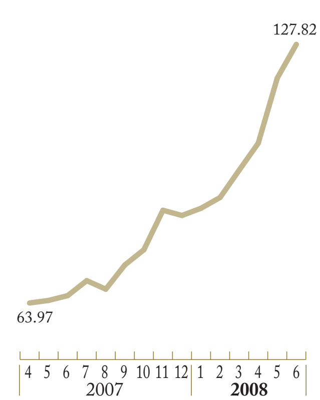
Segment sales
(Billions of yen)



Segment operating income
(Billions of yen)



Crude oil price (Dubai)
(US$/barrel)



SOURCES OF LIQUIDITY AND FUNDS

Cosmo Oil's core petroleum business is its principal source of income. While rising crude oil prices benefit sales and operating income in the Company's Oil Exploration and Production business, high tax rates in oil producing countries mean the positive impact in terms of cash inflow is limited.

In the Petroleum business, there is a noticeable lag between the import of crude oil and the receipt of funds from the sale of petroleum products. This is because the transportation of crude oil requires a significant amount of time. Also, the Company is obligated to maintain reserves equivalent to 70 days of domestic sales volume. Because it is entirely dependent on imports of raw materials, Cosmo Oil is also affected significantly by fluctuations in exchange rates, which influence import costs, and in domestic sales prices. The Company engages in forward foreign exchange contracts to hedge this risk.

With crude oil prices continuing to rise, the Company must undertake short-term borrowings during the period under review to provide additional working capital to facilitate crude oil imports. In the period under review, short-term borrowings increased as the repayment of long-term debt and the redemption of corporate bonds contributed to a ¥88.3 billion decline in interest-bearing debt, to ¥521.6 billion. During the period, the Company also made a third-party allotment of shares to Infinity Alliance in the amount of ¥89.8 billion. As a consequence, the shareholders' equity ratio rose 5.7 percentage points, to 27.2%, from 21.5%, while the debt-to-equity ratio rose 0.6 point to 1.2 times, from 1.8 times, indicative of a more stable financial base.

To facilitate the smooth acquisition of funds, Cosmo Oil has obtained long-term obligation ratings from two respected ratings agencies. In July 2007, Moody's Investors Service raised the Company's senior unsecured debt rating to Baa3, from Ba1, while in November 2007 Japan Credit Rating Agency, Ltd., raised the Company's rating for senior debt of the issuer to BBB+, from BBB.

Cosmo Oil plans strategic capital investments under its Third Consolidated Mid-Term Management Plan. Moving forward, the Company will seek to flexibly raise funds while monitoring market trends, while at the same time endeavor to optimize its balance sheet, thereby reinforcing its financial condition and ensuring its ability to support strategic investments.

Financial Position

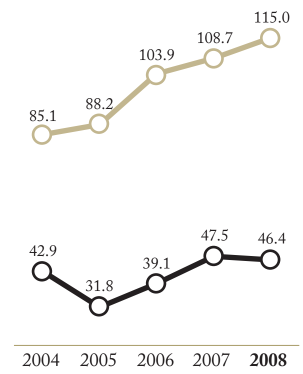
ASSETS

As of March 31, 2008, total assets stood at ¥1,627.9 billion, up ¥48.7 billion, or 3.1%, from the end of the previous fiscal year. This increase was largely attributable to an increase in current assets as rising crude oil prices boosted inventories ¥92.4 billion, or 26.6%, to ¥440.1 billion.

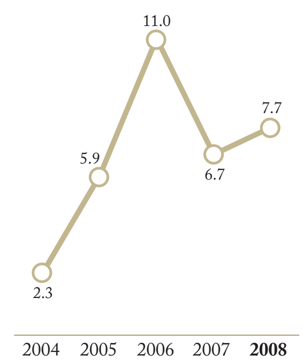
Net property, plant and equipment at the fiscal year-end amounted to ¥529.0 billion, an increase of ¥677 million, or 0.1%. On the negative side, this reflected such factors as an increase in accumulated depreciation resulting from a change in the method of depreciation employed by the Company and an impairment loss on land, while on the positive side the construction of new heavy oil cracking facilities (coker unit) at the Sakai refinery resulted in an increase in construction in progress.

Investments in securities declined ¥4.1 billion, or 3.8%, to ¥103.8 billion. This was primarily due to a decline in the market value of securities as a result of declining share prices.

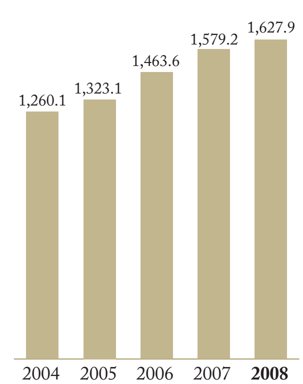
■ Current ratio
■ Quick ratio
(%)



■ Interest coverage ratio
(Times)



■ Total assets
(Billions of yen)



LIABILITIES AND SHAREHOLDERS' EQUITY

Total current liabilities were ¥812.0 billion at the fiscal year-end, an increase of ¥182 million, or 0.02%, from the same point a year earlier. Notes and accounts payable, trade, rose ¥31.1 billion, or 11.1%, to ¥312.7 billion, while ¥27.8 billion worth of bonds due within one year were redeemed. Long-term debts, less current maturities, were down ¥73.3 billion, or 21.9%, to ¥262.0 billion. As a consequence, interest-bearing debt declined ¥88.3 billion, or 14.5%, to ¥521.6 billion, while the interest-bearing debt ratio improved 6.6 percentage points, to 32.0%, from 38.6% a year earlier. Net interest-bearing debt, which excludes cash and short-term operating funds, fell ¥44.9 billion, to ¥438.9 billion, while the net interest-bearing debt ratio declined 3.6 percentage points, to 27.0%.

Shareholders' equity at the fiscal year-end amounted to ¥442.9 billion, up ¥103.2 billion, or 30.4%. The principal factors behind this increase were the third-party allotment of shares to Infinity Alliance, which raised ¥89.8 billion, and a ¥29.5 billion increase in retained earnings. The shareholders' equity ratio rose 5.7 percentage points, to 27.2%, from 21.5%, while the debt-to-equity ratio rose 0.6 point to 1.2 times, and the net debt-to-equity ratio improved 0.4 point, to 1.0 time.

CASH FLOWS

Net cash used in operating activities amounted to ¥4.2 billion, compared with ¥25.0 billion provided by these activities in the previous fiscal year. Despite an increase of ¥24.3 billion in income before income taxes and minority interests, to ¥95.6 billion, inventory valuations, prompted by rising crude oil prices, resulted in an increase in inventories of ¥92.3 billion, ¥82.9 billion higher than in the previous period.

Net cash used in investing activities was to ¥32.8 billion. Principal factors behind this change were ¥34.8 billion applied to payments for purchases of property, plant and equipment, which included cash applied to the construction of heavy oil cracking facilities (coker unit) at the Sakai refinery and refinery export infrastructure and the purchase of property, plant and equipment to facilitate the construction of new service stations. Payments for purchase of marketable securities and investments in securities also contributed to the increase.

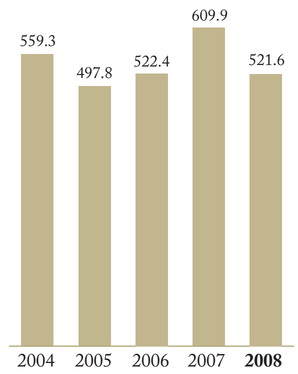
Net cash used in financing activities amounted to ¥5.2 billion, compared with ¥80.0 billion provided by these activities in the previous period. Influential factors included the third-party share allotment to Infinity Alliance, which raised ¥89.8 billion, and ongoing efforts to retire debt, which resulted in a decrease in short-term loans payable of ¥11.7 billion, the application of ¥53.9 billion to repayments of long-term loans payable and ¥30.3 billion to the redemption of bonds.

As a consequence of the Company's operating, investing and financing activities in the fiscal year ended March 31, 2008, net cash and cash equivalents at end of year were ¥82.7 billion, down ¥43.4 billion, or 34.4%.

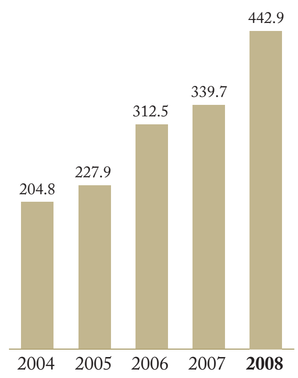
CAPITAL EXPENDITURES

Capital expenditures in the fiscal year ended March 31, 2008, amounted to ¥49.0 billion, an increase of ¥12.8 billion, or 35.5%. Capital expenditures of ¥35.0 billion in the petroleum business were primarily applied to the construction of heavy oil cracking facilities (coker unit) at the Sakai refinery and export infrastructure at our four refineries, the construction of new and renovation of existing service stations, as well as to facility maintenance and refurbishment. In the Oil Exploration and Production business, capital expenditures amounted to ¥13.7 billion.

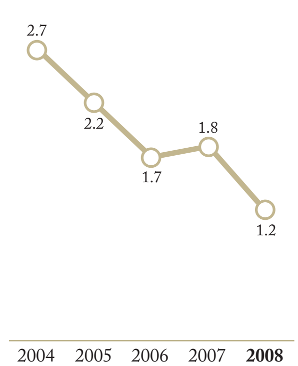
Interest-bearing debt
(Billions of yen)



Shareholders' equity
(Billions of yen)



Debt-to-equity ratio
(Times)



Under the Third Consolidated Mid-Term Plan, which will run from the fiscal year ended March 31, 2009, through to the fiscal year ended March 31, 2011, the Company plans make total capital expenditures of ¥265.0 billion. Of this total, ¥182.0 billion is earmarked for refinery upgrades, investment in self-operated service stations, the implementation of growth strategies in the Oil Exploration and Production business, and measures to reinforce the Company's existing operating foundation. The remaining ¥83.0 billion will be applied to, among others, efforts to enhance refinery safety, measures to make facilities more environment-friendly, and ongoing refinery maintenance, refurbishment and repairs.

BASIC POLICY REGARDING EARNINGS APPROPRIATION

Cosmo Oil places particular emphasis on shareholder returns, 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 Company declared dividends for the year of ¥8 per share, comprising an interim dividend of ¥3 per share and a year-end dividend of ¥5 per share.

Business and Other Risks

The Cosmo Oil 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 major risk factors that the Group incurs in the course of its business development. The Group proactively discloses all risks that it considers important to those investing in Cosmo Oil stock, including external factors over which the Group has no control and which have little probability of occurring. Moreover, the following risks are not all-inclusive of the risks associated with investment in Cosmo Oil stock.

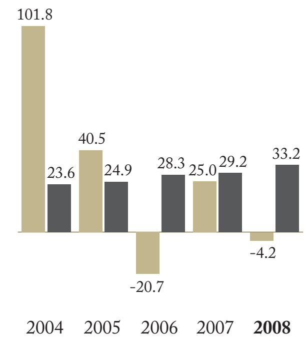
(1) SUPPLY AND DEMAND TRENDS

Sales of gasoline, kerosene and diesel fuel comprise a major portion of the Group's total sales and are strongly affected by general trends in personal consumption. In addition, the demand for naphtha is strongly affected by demand trends in the petrochemical industry, while the demand for diesel fuel is strongly affected by the transportation industry and the demand for heavy fuel oil 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.

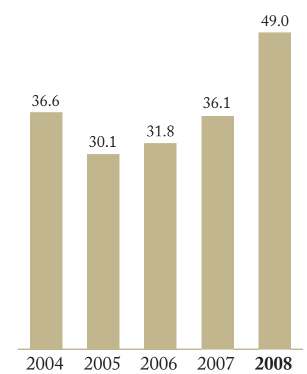
(2) CRUDE OIL PRICE FLUCTUATIONS

Crude oil prices are significantly affected by demand and production trends. In terms of demand trends, the impact of large consuming nations, such as the United States, and Asian nations showing rapid economic growth (particularly China) is highly significant. Increases and decreases in the crude oil production by Middle East oil-producing nations primarily have a large impact on production trends. In addition to political instability, such as the outbreak of war around oil-producing nations, and terrorism and other uncertainties that could significantly affect crude oil prices and crude oil procurement by the Group, production stoppages at the Group's production bases could also have a material impact on the Group's business performance and financial condition. Since a majority of its cost of sales is influenced by changes

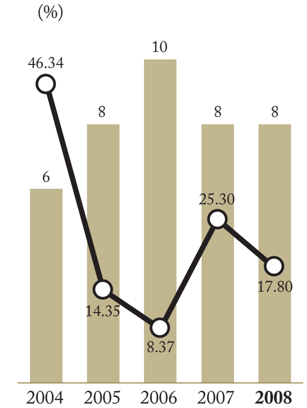
■ Cash flows from operating activities
■ Depreciation and amortization
(Billions of yen)



■ Capital expenditures
(Billions of yen)



■ Cash dividends per share
(Yen)
■ Payout ratio
(%)



in crude oil prices, the Group may have to shoulder high costs relative to market conditions if crude oil prices drop due to global supply and demand trends and other factors. In this way, crude oil price fluctuations are likely to affect the costs the Group has to incur.

(3) FOREIGN EXCHANGE RATE FLUCTUATIONS

The Group imports crude oil and oil 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 mentioned above, the cost of the Group's major oil products is determined by international market prices of crude oil and foreign exchange rates. On the other hand, the Group's marketing activities are mainly 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 VALUATION 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 oil 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) IMPACT BY NATURAL DISASTERS AND ACCIDENTS

As its refineries handle large volumes of flammable materials, the Group takes particular care in implementing various safety measures to prevent accidents caused by human errors, and to avoid workplace injuries. Notwithstanding these precautions, the occurrence of an earthquake, other natural disasters or unforeseen accidents can result in unavoidable stoppages of operations. For example, an explosion and fire accident at the Chiba Refinery in April 2006 forced the Group to suspend operations of the refinery for a short period and to report losses caused by such suspended operations and restoration costs accordingly. In addition, accidents in non-refinery operations, such as oil storage depots, service stations, marine tankers and tanker trucks, could noticeably affect the Group's operations and have material impact on its business performance and financial condition.

(9) IMPACT BY REGULATIONS APPLICABLE TO THE OIL INDUSTRY

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. In promoting its CSR management efforts, the Group positions legal compliance as an integral part of such efforts, establishing 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 the imposition of administrative penalties by the Nuclear and Industrial Safety Agency of the Ministry of Economy, Trade and Industry, which had an impact on the Group's business performance and financial condition.

(10) INFORMATION MANAGEMENT

In terms of information management, malicious software countermeasures and personal information protection measures have been implemented to strengthen the Group's internal IT system security. In addition, the Group has established internal monitoring procedures and regulations on how to handle confidential information, including customer information, and has contracted external third parties to implement supervision and audits over the management and handling of confidential information within the Group. However, the materialization of risks, such as any loss, leakage or alteration of confidential information, including personal information, for any reason, could result in a loss of customer trust and tarnish the Group's brand image, which, in turn, could have material impact on the Group's business performance.

Outlook

Owing to uncertainties, including fluctuations in crude oil prices and exchange rates, as well as future market trends and the obligation to respond to environmental issues, the operating environment continues to warrant caution. By implementing the strategies of its Third Consolidated Mid-Term Plan, Cosmo Oil will continue to strengthen its earnings base across the spectrum of its operations, from petroleum development through to supply and sales, as well as in petrochemicals and related businesses, with the aim of increasing consolidated operating income, excluding the impact of inventory valuations, to ¥101.0 billion and consolidated net income to ¥37.0 billion.

Consolidated Balance Sheets

Cosmo Oil Company, Limited and Consolidated Subsidiaries. March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
ASSETS			
Current assets:			
Cash and deposits (Note 5)	¥ 84,105	¥ 72,193	$ 720,561
Marketable securities (Notes 5, 10 and 16)	9,640	10,992	109,712
Notes and accounts receivable, trade (Note 3)	291,964	293,549	2,929,923
Less allowance for doubtful accounts	(971)	(352)	(3,513)
	290,993	293,197	2,926,410
Inventories (Note 4)	347,739	440,092	4,392,574
Other current assets (Note 13)	149,605	117,248	1,170,256
Total current assets	882,082	933,722	9,319,513
Property, plant and equipment (Notes 2, 7 and 16)**:**			
Land	313,181	308,277	3,076,924
Buildings and structures	444,249	442,416	4,415,770
Machinery and equipment	409,514	412,974	4,121,908
Construction in progress	7,447	26,811	267,602
	1,174,391	1,190,478	11,882,204
Less accumulated depreciation	(646,044)	(661,454)	(6,601,996)
Net property, plant and equipment	528,347	529,024	5,280,208
Other assets:			
Investments in securities (Notes 10 and 16)	107,908	103,827	1,036,301
Long-term loans receivable	3,440	2,643	26,380
Other (Note 13)	58,922	59,913	597,993
Less allowance for doubtful accounts	(1,543)	(1,225)	(12,227)
Total other assets	168,727	165,158	1,648,447
Total	¥1,579,156	¥1,627,904	$16,248,168

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans and current maturities of long-term debts (Notes 6 and 16)	¥ 274,577	¥ 259,600	$ 2,591,077
Notes and accounts payable, trade	281,520	312,657	3,120,641
Income, excise and other taxes payable	122,928	102,774	1,025,790
Accrued expenses and other current liabilities (Note 13)	132,821	136,997	1,367,372
Total current liabilities	811,846	812,028	8,104,880
Long-term debts, less current maturities (Notes 6 and 16)	335,313	262,005	2,615,081
Deferred tax for revaluation reserve for land (Notes 7 and 13)	23,752	33,947	338,826
Retirement and severance benefits (Note 12)	4,614	6,301	62,891
Other long-term liabilities (Notes 13 and 16)	42,018	43,896	438,128
Contingencies (Note 9)			
Net assets (Note 2):			
Common stock:			
authorized - 1,700,000,000 shares			
issued - 671,705,087 shares in 2007, 847,705,087 shares in 2008	62,367	107,247	1,070,436
Capital surplus	44,562	89,442	892,724
Retained earnings	185,851	215,388	2,149,795
Less treasury stock, at cost	(112)	(125)	(1,248)
Unrealized gains on securities	14,508	5,909	58,978
Deferred gains on hedges	12,142	14,604	145,763
Revaluation reserve for land (Note 7)	20,918	11,085	110,640
Foreign currency translation adjustments	(535)	(638)	(6,367)
Minority interests	21,912	26,815	267,641
Total net assets	361,613	469,727	4,688,362
Total	¥1,579,156	¥1,627,904	$16,248,168

Consolidated Statements of Income

Cosmo Oil Company, Limited and Consolidated Subsidiaries. Years ended March 31, 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Net sales (Note 15)	¥2,670,628	¥3,062,744	¥3,523,087	$35,164,058
Cost of sales	2,422,272	2,852,242	3,290,688	32,844,475
Gross profit	248,356	210,502	232,399	2,319,583
Selling, general and administrative expenses	137,108	140,859	148,602	1,483,202
Operating income (Note 15)	111,248	69,643	83,797	836,381
Other income (expenses):				
Interest and dividend income	6,490	1,845	3,488	34,814
Interest expenses (Note 6)	(10,747)	(10,686)	(11,358)	(113,365)
Foreign currency exchange gain, net	3,439	2,884	8,887	88,701
Net gain (loss) on sale and disposal of property, plant and equipment	(1,141)	(1,848)	2,764	27,588
Impairment loss on fixed assets (Notes 14 and 15)	(1,976)	(2,440)	(4,511)	(45,024)
Equity in earnings of affiliates	9,578	9,921	8,662	86,456
Write-down of marketable securities and investments in securities	(79)	(788)	—	—
Gain on sale of investments in securities	344	66	726	7,246
Loss on sale of investments in securities	(24)	—	—	—
Gain on abolishment of retirement benefit plan (Note 1)	—	—	3,156	31,500
Gain on exchange of stock	—	—	393	3,923
Loss on liquidation of business of subsidiaries and affiliates	—	—	(1,625)	(16,219)
Compensation received for the transfer of the facilities	1,200	1,500	—	—
Collection of receivables written-off	2,602	278	—	—
Other, net	(541)	868	1,182	11,797
	9,145	1,600	11,764	117,417
Income before income taxes and minority interests	120,393	71,243	95,561	953,798
Income taxes:				
Current	50,741	37,200	(47,983)	(478,920)
Deferred (Note 13)	4,556	1,485	(7,088)	(70,746)
	55,297	38,685	(55,071)	(549,666)
Income before minority interests	65,096	32,558	40,490	404,132
Minority interests	(3,301)	(6,022)	(5,337)	(53,269)
Net income	¥ 61,795	¥ 26,536	¥ 35,153	$ 350,863
Earnings per share:			Yen	U.S. dollars (Note 1)
Basic	¥94.54	¥39.54	¥46.72	$0.47
Diluted	92.17	37.91	44.98	0.45
Cash dividends (Note 17)	10.00	8.00	8.00	0.08

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Cosmo Oil Company, Limited and Consolidated Subsidiaries. Years ended March 31, 2007 and 2008

	Number of shares of common stock (Thousands)	Millions of yen									
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities	Deferred gains on hedges	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
Issuance of new shares	176,000	44,880	44,880	—	—	—	—	—	—	—	89,760
Net income for the year	—	—	—	35,153	—	—	—	—	—	—	35,153
Cash dividends	—	—	—	(5,372)	—	—	—	—	—	—	(5,372)
Reversal of revaluation reserve for land (Note 7)	—	—	—	(244)	—	—	—	244	—	—	—
Acquisition of treasury stock	—	—	—	—	(15)	—	—	—	—	—	(15)
Disposal of treasury stock	—	—	0	—	2	—	—	—	—	—	2
Net changes during the year	—	—	—	—	—	(8,599)	2,462	(10,077)	(103)	4,903	(11,414)
Balance at March 31, 2008	847,705	¥107,247	¥89,442	¥215,388	¥(125)	¥5,909	¥14,604	¥11,085	¥(638)	¥26,815	¥469,727

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities	Deferred gains on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2007	$622,487	$444,775	$1,854,985	$(1,118)	$144,805	$121,190	$208,784	$(5,339)	$218,704	$3,609,273
Issuance of new shares	447,949	447,949	—	—	—	—	—	—	—	895,898
Net income for the year	—	—	350,863	—	—	—	—	—	—	350,863
Cash dividends	—	—	(53,618)	—	—	—	—	—	—	(53,618)
Reversal of revaluation reserve for land (Note 7)	—	—	(2,435)	—	—	—	2,435	—	—	—
Acquisition of treasury stock	—	—	—	(150)	—	—	—	—	—	(150)
Disposal of treasury stock	—	0	—	20	—	—	—	—	—	20
Net changes during the year	—	—	—	—	(85,827)	24,573	(100,579)	(1,028)	48,937	(113,924)
Balance at March 31, 2008	$1,070,436	$892,724	$2,149,795	$(1,248)	$58,978	$145,763	$110,640	$(6,367)	$267,641	$4,688,362

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Cosmo Oil Company, Limited and Consolidated Subsidiaries. Years ended March 31, 2006, 2007 and 2008

			Millions of yen	Thousands of U.S. dollars (Note 1)
	2006	2007	**2008**	**2008**
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 120,393	¥ 71,243	**¥ 95,561**	**$ 953,798**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	28,313	29,246	**33,240**	**331,770**
Amortization of consolidation goodwill	380	3	**46**	**459**
Impairment loss on fixed assets	1,976	2,440	**4,511**	**45,024**
Increase (decrease) in allowance for doubtful accounts	(1,912)	439	**(937)**	**(9,352)**
Interest and dividend income	(6,490)	(1,845)	**(3,488)**	**(34,814)**
Interest expense	10,747	10,686	**11,358**	**113,365**
Equity in earnings of affiliates	(9,578)	(9,921)	**(8,662)**	**(86,456)**
Net gain (loss) on sale or disposal of property, plant and equipment	1,141	1,848	**(2,764)**	**(27,588)**
Increase in notes and accounts receivable	(35,713)	(63,956)	**(1,563)**	**(15,600)**
Recovery of recoverable accounts under production sharing	—	8,542	**9,536**	**95,179**
Increase in inventories	(105,263)	(9,398)	**(92,345)**	**(921,699)**
Increase (decrease) in notes and accounts payable	(5,972)	8,337	**31,131**	**310,720**
Decrease (increase) in other current assets	10,774	21,089	**(7,058)**	**(70,446)**
Increase (decrease) in other current liabilities	14,862	26,745	**(34,136)**	**(340,713)**
Decrease (increase) in other investments	5,712	(5,783)	**(271)**	**(2,705)**
Other, net	(3,324)	1,250	**688**	**6,867**
Subtotal	26,046	90,965	**34,847**	**347,809**
Interest and dividend received	10,193	3,331	**4,361**	**43,527**
Interest paid	(10,804)	(10,520)	**(11,872)**	**(118,495)**
Income taxes paid	(46,120)	(58,771)	**(31,551)**	**(314,911)**
Net cash provided by (used in) operating activities	(20,685)	25,005	**(4,215)**	**(42,070)**
Cash flows from investing activities:				
Payments for purchases of property, plant and equipment	(18,989)	(30,263)	**(34,823)**	**(347,570)**
Proceeds from sale or disposal of property, plant and equipment	25,918	7,508	**9,461**	**94,431**
Payments for purchases of marketable securities and investments in securities	(76)	(9,846)	**(6,490)**	**(64,777)**
Proceeds from sale of marketable securities and investments in securities	2,139	3,343	**7,417**	**74,029**
Payments for intangible assets and deferred charges	(11,885)	(5,334)	**(8,641)**	**(86,246)**
Decrease (increase) in short-term loans receivable	(535)	857	**545**	**5,440**
Payments for long-term loans receivable	(154)	(1,467)	**(785)**	**(7,835)**
Proceeds from long-term loans receivable	1,428	1,102	**1,708**	**17,048**
Proceeds from factoring	514	—	**(8)**	**(80)**
Other, net	292	(1,768)	**(1,190)**	**(11,878)**
Net cash used in investing activities	(1,348)	(35,868)	**(32,806)**	**(327,438)**
Cash flows from financing activities:				
Increase (decrease) in short-term loans payable	47,750	42,115	**(11,736)**	**(117,139)**
Proceeds from long-term loans payable	29,794	94,502	**7,454**	**74,399**
Repayments for long-term loans payable	(48,911)	(46,268)	**(53,868)**	**(537,658)**
Proceeds from issuance of common stock	20,811	—	**89,281**	**891,117**
Proceeds from issuance of convertible bonds	17,971	—	**—**	**—**
Redemptions of bonds	(21,500)	(3,000)	**(30,300)**	**(302,425)**
Cash dividends paid	(5,172)	(6,715)	**(5,372)**	**(53,618)**
Cash dividends paid for minority shareholders	(498)	(471)	**(616)**	**(6,148)**
Other, net	(637)	(140)	**(72)**	**(719)**
Net cash provided by (used in) financing activities	39,608	80,023	**(5,229)**	**(52,191)**
Effect of exchange rate changes on cash and cash equivalents	895	314	**(1,244)**	**(12,416)**
Net increase (decrease) in cash and cash equivalents	18,470	69,474	**(43,494)**	**(434,115)**
Cash and cash equivalents at beginning of year	38,062	56,632	**126,106**	**1,258,669**
Cash and cash equivalents from newly consolidated subsidiaries	100	—	**63**	**628**
Cash and cash equivalents at end of year (Note 5)	¥ 56,632	¥126,106	**¥82,675**	**$825,182**

The accompanying notes are an integral part of these statements.

Note 1. Summary of Accounting Policies

(1) Basis of presenting consolidated financial statements

Cosmo Oil Company, Limited (the "Company"), and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, in accordance with the provisions set forth in the Japanese Financial Instruments 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 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 Japanese Financial Instruments 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 sheets as of March 31, 2007 and 2008 have been prepared in accordance with the new accounting standard as discussed in Note 2 (1).

Also, as discussed in Note 2 (2), the consolidated statements of changes in net assets for the years ended March 31, 2007 and 2008 have been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such a statement was 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 readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 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 and unrealized profits 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 difference between the acquisition cost and net assets ("Goodwill") is amortized on a straight-line basis over a period of five years. If the amounts are insignificant, 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, 2006, 2007 and 2008 were as follows:

	2006	2007	**2008**
Consolidated subsidiaries	30	28	**30**
Subsidiaries using the equity method	34	31	**32**
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) Cash and cash equivalents in the statements of cash flows

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

(4) Conversion of foreign currencies and translation of statements

Receivables and payables denominated in foreign currencies are translated into Japanese yen at 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 and land for sale are 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.

In accordance with revisions to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries adopted a method of calculation whereby the remaining acquisition cost of each of the tangible fixed assets acquired on or before March 31, 2007 will be depreciated equally over five years starting in the fiscal year that follows the fiscal year when its depreciation expenses reach the final deductible limit under the former law. This arrangement increased depreciation expenses by ¥3,198 million ($31,919 thousand) and decreased operating income, ordinary income and income before income taxes and minority interests by ¥3,011 million ($30,053 thousand) for the year ended March 31, 2008.

(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 at an amount prorated using the straight-line method over a certain number of years (from 8 to 10 years) within the average of the remaining years of service to be performed by the employees at the time of accrual, commencing in the fiscal year following the accrual.

Prior service cost obligation is recognized as an expense item at an amount prorated using the straight-line method over a certain number of years (from 8 to 10 years) within the average of the remaining years of service to be performed by the employees at the time of accrual.

On April 1, 2007, the Company discontinued its qualified retirement annuity system, a defined-benefit pension system, and instead introduced a defined-benefit pension plan, a defined-contribution pension plan, an advance-payment plan for retirement benefits and an additional retirement benefit plan. Owing to the discontinuation of the previous system, extraordinary income of ¥3,008 million ($30,023 thousand) and an unrecognized prior service cost (positive difference) of ¥1,592 million ($15,890 thousand) were recorded.

On October 1, 2007, some of the Company's consolidated subsidiaries discontinued the conventional qualified retirement annuity system, a defined-benefit pension system, and introduced a defined-benefit pension plan, a defined-contribution pension plan, an advance-payment plan for retirement benefits and an additional retirement benefit plan. Owing to the discontinuation of the system, extraordinary income of ¥148 million ($1,477 thousand) and an unrecognized prior service cost (positive difference) of ¥27 million ($269 thousand) were recorded.

(b) Retirement benefits for directors and corporate auditors

The Company's domestic consolidated subsidiaries recognize liabilities for retirement benefits for directors and corporate auditors at the amounts required, if all directors and corporate auditors had retired at the balance sheet date.

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.

In June 2007, at the shareholders' meetings of several consolidated subsidiaries, 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, 2008, the entire amount of the provision for retirement benefits for directors and corporate auditors was reversed.

(11) Allowance for special repair works

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 a legal earnings reserve until the total legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, the 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 the 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 longer than one year in duration and for which the contract amount is more than ¥100 million ($998 thousand). Such long-term and large engineering contracts are recognized by the percentage of completion method.

(17) Earning per share

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

Diluted net income per share is computed based on the assumption that the convertible bonds were fully converted into common stock on the date of issuance.

(18) Recoverable accounts under production sharing

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

(19) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2008 presentation.

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

Note 2. Changes in Accounting Policy

(1) Accounting Standard for Presentation of Net Assets in the Balance Sheets

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 Sheets" (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 deferred gains/losses on hedges. Under the previous presentation rules, deferred gains/losses on hedges were included in the asset or liability 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 would have been presented.

(2) 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 statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

(3) Amendment on calculation of annual depreciable amount-assets

In accordance with revisions to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries changed the method of calculating depreciation expenses for tangible fixed assets acquired from April 1, 2007 onwards to that required under the revised law, effective from the beginning of the year ended March 31, 2008 (April 1, 2007). The impact of this change on operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2008 was slight.

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

Note 4. Inventories

Inventories at March 31, 2007 and 2008 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Finished products	¥ 86,106	¥117,060	$1,168,380
Semi-finished products	77,381	86,420	862,561
Materials-crude oil, auxiliary materials, etc.	85,301	93,530	933,526
Supplies-spare parts, etc.	6,707	7,257	72,432
In-transit crude oil and oil products	89,774	133,551	1,332,977
Land for sale	13	13	130
Others	2,457	2,261	22,568
Total	¥347,739	¥440,092	$4,392,574

Note 5. Notes to the Consolidated Statements of Cash Flows

Cash and deposits, and cash equivalents

Reconciliation between cash and deposits in the consolidated balance sheets with cash and cash equivalents in the consolidated statements of cash flows at March 31, 2007 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Cash and deposits	¥ 84,105	¥72,193	$720,561
Add:			
Marketable securities	9,640	10,992	109,712
Other current assets	37,004	—	—
Less:			
Bonds with maturities exceeding three months included in marketable securities above	4,643	510	5,091
Cash and cash equivalents	¥126,106	¥82,675	$825,182

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

The short-term loans from banks of ¥191,392 million and ¥179,821 million ($1,794,800 thousand), as of March 31, 2007 and 2008, bear interest ranging from 0.10% to 6.11% and from 0.10% to 5.55% 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, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Short-term loans	¥191,392	¥179,821	$1,794,800
Current maturities of long-term debts	83,185	79,779	796,277
Total	¥274,577	¥259,600	$2,591,077

Long-term debts at March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Loans from banks, insurance companies and other financial institutions, secured, with interest at 0.55% - 4.12%, due serially through 2018	¥367,698	¥321,284	$3,206,747
3.3% unsecured straight yen bonds due in 2007	9,500	—	—
3.15% unsecured straight yen bonds due in 2007	7,800	—	—
1.34% unsecured straight yen bonds due in 2007	10,000	—	—
1.60% unsecured straight yen bonds due in 2008	5,500	2,500	24,952
Unsecured zero coupon convertible bonds due in 2010 (bonds with stock acquisition rights)	18,000	18,000	179,659
	418,498	341,784	3,411,358
Less current maturities	(83,185)	(79,779)	(796,277)
Total	¥335,313	¥262,005	$2,615,081

The aggregate annual maturities of long-term debts at March 31, 2008 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2009	¥ 79,779	$ 796,277
2010	35,796	357,281
2011	47,068	469,787
2012	40,989	409,113
2013 and thereafter	138,152	1,378,900
Total	¥341,784	$3,411,358

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, 2008	¥617.4 ($6.16)
f. Balance of debt at March 31, 2008	¥18,000 million ($179,659 thousand)
g. Accumulated number of shares issued upon conversion in exchange for treasury stock through March 31, 2008	—
h. Number of additional shares that would be issued upon conversion at March 31, 2008	29,154,518 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, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	**2008**	**2008**
Difference between the fair value and carrying amount of the revalued land	¥(88,030)	**¥(81,539)**	**$(813,844)**

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, 2006, 2007 and 2008 were ¥3,618 million, ¥3,682 million and ¥3,553 million ($35,463 thousand), respectively.

Total lease obligations as of March 31, 2007 and 2008 with interest portion under such leases were ¥9,644 million and ¥7,963 million ($79,479 thousand), including ¥3,387 million and ¥2,963 million ($29,574 thousand) due within one year. Included in the total lease obligations as of March 31, 2008 is obligation for sub-lease payment of ¥2,682 million ($26,769 thousand).

Equivalent of acquisition cost, accumulated depreciation, and net book value of leased properties for the years ended March 31, 2007 and 2008, were as follows:

	Millions of yen		
Year ended March 31, 2007	Machinery & equipment	Other	Total
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

	Millions of yen		
Year ended March 31, 2008	Machinery & equipment	Other	Total
Acquisition cost equivalent	**¥ 4,308**	**¥ 8,534**	**¥12,842**
Accumulated depreciation equivalent	**(2,710)**	**(4,852)**	**(7,562)**
Net book value equivalent	**¥ 1,598**	**¥ 3,682**	**¥ 5,280**

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2008	Machinery & equipment	Other	Total
Acquisition cost equivalent	**$ 42,998**	**$ 85,178**	**$128,176**
Accumulated depreciation equivalent	**(27,048)**	**(48,428)**	**(75,476)**
Net book value equivalent	**$ 15,950**	**$ 36,750**	**$ 52,700**

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, 2006, 2007 and 2008 was ¥1,745 million, ¥1,887 million and ¥1,271 million ($12,686 thousand), respectively.

Total lease obligations as of March 31, 2007 and 2008, inclusive of interest income under such leases, were ¥4,908 million and ¥2,795 million ($27,897 thousand), respectively, including ¥1,764 million and ¥1,059 million ($10,570 thousand) due within one year. Included in the total lease obligations as of March 31, 2008 is obligation for sub-lease payment of ¥2,793 million ($27,877 thousand).

Acquisition cost, accumulated depreciation and net book value of leased properties for the years ended March 31, 2007 and 2008, were as follows:

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

	Millions of yen		
Year ended March 31, 2008	Machinery & equipment	Other	Total
Acquisition cost	**¥ 4**	**¥ 49**	**¥ 53**
Accumulated depreciation	**(4)**	**(47)**	**(51)**
Net book value	**¥ 0**	**¥ 2**	**¥ 2**

Year ended March 31, 2008	Thousands of U.S. dollars (Note 1) Machinery & equipment	Other	Total
Acquisition cost	**$ 40**	**$ 489**	**$ 529**
Accumulated depreciation	**(40)**	**(469)**	**(509)**
Net book value	**$ 0**	**$ 20**	**$ 20**

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, 2008 were ¥2,650 million ($26,450 thousand).

Concerning the matter in which the Company and other companies are claimed to have violated the Antimonopoly Act with respect to bidding relating to delivery of petroleum products to the Japanese Defense Agency ("JDA"), the Company received an order for payment of surcharges (¥1,751 million ($17,477 thousand)) on January 16, 2008 from the Fair Trade Commission ("FTC"). However, the Company submitted a motion for commencement of adjudication procedures to the FTC on February 15, 2008 requesting another trial, and following that motion the FTC issued a decision for commencement of adjudication on March 24, 2008.

Note 10. Securities

The following tables summarize acquisition costs, book value, and fair value of securities as of March 31, 2007 and 2008:

As of March 31, 2007
(a) Held-to-maturity debt securities
Bonds with fair value

	Millions of yen Book value	Fair value	Difference
Fair value exceeding book value	¥ —	¥ —	¥ —
Fair value not exceeding book value	1,081	1,059	(22)
Total	¥1,081	¥1,059	¥(22)

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

	Millions of yen Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity securities	¥15,419	¥37,821	¥22,402
Bonds	—	—	—
Others	4	6	2
Sub-total	15,423	37,827	22,404
Book value not exceeding acquisition cost:			
Equity securities	¥ 988	¥ 964	¥(24)
Bonds	4,000	3,989	(11)
Sub-total	4,988	4,953	(35)
Total	¥20,411	¥42,780	¥22,369

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

	Millions of yen		
	Amount of sales	Gain	Loss
	¥79	¥40	¥ —

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

	Millions of yen
	Book value
(a) Held-to-maturity debt securities	
Non-listed bonds	¥ 64
(b) Shares issued by unconsolidated subsidiaries and affiliates	
Non-listed securities	¥52,314
(c) Available-for-sale securities	
Commercial paper	4,996
Non-listed securities	16,094
Total	¥21,090

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

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds and municipal bonds	¥1,556	¥ 513	¥ 5	¥ —
Corporate bonds	2,564	500	—	—
Total	¥4,120	¥1,013	¥ 5	¥ —

As of March 31, 2008

(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	**¥ 10**	**¥ 10**	**¥ 0**	**$ 100**	**$ 100**	**$ 0**
Fair value not exceeding book value	**499**	**499**	**(0)**	**4,980**	**4,980**	**(0)**
Total	**¥509**	**¥509**	**¥(0)**	**$5,080**	**$5,080**	**$(0)**

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

	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	¥ 9,785	¥20,878	¥11,093	$ 97,664	$208,384	$110,720
Bonds	—	—	—	—	—	—
Others	3	4	1	30	40	10
Sub-total	9,788	20,882	11,094	97,694	208,424	110,730
Book value not exceeding acquisition cost:						
Equity securities	6,486	5,182	(1,304)	64,737	51,722	(13,015)
Bonds	1,001	998	(3)	9,991	9,961	(30)
Sub-total	7,487	6,180	(1,307)	74,728	61,683	(13,045)
Total	¥17,275	¥27,062	¥ 9,787	$172,422	$270,107	$ 97,685

(c) Available-for-sale securities sold during year ended March 31, 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Amount of sales	Gain	Loss	Amount of sales	Gain	Loss
	¥1,312	¥727	¥—	$13,095	$7,256	$—

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	¥ 18	$ 180
(b) Shares issued by unconsolidated subsidiaries and affiliates Non-listed securities	¥57,538	$574,289
(c) Available-for-sale securities Commercial paper	10,482	104,621
Non-listed securities	18,998	189,620
Total	¥29,480	$294,241

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

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Government bonds and municipal bonds	¥512	¥ 513	¥ 3	¥—
Corporate bonds	—	500	—	—
Total	¥512	¥1,013	¥ 3	¥—

	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	**$5,110**	**$ 5,120**	**$30**	**$ —**
Corporate bonds	**—**	**4,991**	**—**	**—**
Total	**$5,110**	**$10,111**	**$30**	**$ —**

Note 11. Derivative Financial Instruments and Hedging Transactions

(1) Nature and objective of derivative transactions

The Company and its consolidated subsidiaries ("the Companies") use 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 Companies use interest rate swap contracts to exchange floating-rate payment obligations for fixed-rate payment obligations. The Companies also use crude oil and petroleum product swap contracts, option 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 Companies undertake hedge accounting for the derivatives.

A. Hedging instruments and hedged items

Hedging instruments		Hedged items
(Currency)	Forward exchange Currency option	Foreign currency credit and dept
(Interest rate)	Interest rate swaps	Borrowings
(Commodity)	Crude oil and petroleum products forward contracts Crude oil color option	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 Companies evaluate 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 Companies incur 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 Companies face price fluctuation risks and exchange rate fluctuation risks related to crude oil and petroleum product swap transactions, collar option transactions and forward transactions. In all these types of transactions, the Companies deal with large banks, trading companies and oil companies, and therefore consider 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, 2007 and 2008 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, 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, 2008	Millions of yen				
	Contract amounts			Market value	Unrealized gains and losses
	Due within 1 year	Due after 1 year	Total		
Forward exchange contracts					
Buy					
U.S. dollars	¥113,704	¥ —	¥113,704	¥112,183	¥(1,521)
Sell					
U.S. dollars	1,107	—	1,107	1,072	35
Currency option contracts					
Buy					
Call U.S. dollars	11,021	—	11,021	103	(57)
Sell					
Put U.S. dollars	—	—	—	—	—

Year ended March 31, 2008	Thousands of U.S. dollars (Note 1)				
	Contract amounts			Market value	Unrealized gains and losses
	Due within 1 year	Due after 1 year	Total		
Forward exchange contracts					
Buy					
U.S. dollars	$1,134,884	$ —	$1,134,884	$1,119,703	$(15,181)
Sell					
U.S. dollars	11,049	—	11,049	10,700	349
Currency option contracts					
Buy					
Call U.S. dollars	110,001	—	110,001	1,028	(569)
Sell					
Put U.S. dollars	—	—	—	—	—

(2) Interest rate related

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

					Millions of yen
			Contract amounts	Market value	Unrealized losses
Year ended March 31, 2008	Due within 1 year	Due after 1 year	Total		
Swap transaction of interest rates					
Receive-fixed; pay-variable	**¥3,000**	**¥11,000**	**¥14,000**	**¥ (52)**	**¥ 85**
Receive-variable; pay-fixed	**3,000**	**11,000**	**14,000**	**(919)**	**257**

					Thousands of U.S. dollars (Note 1)
			Contract amounts	Market value	Unrealized losses
Year ended March 31, 2008	Due within 1 year	Due after 1 year	Total		
Swap transaction of interest rates					
Receive-fixed; pay-variable	**$29,943**	**$109,792**	**$139,735**	**$ (519)**	**$ 848**
Receive-variable; pay-fixed	**29,943**	**109,792**	**139,735**	**(9,173)**	**2,565**

(3) Commodity related

					Millions of yen
			Contract amounts	Market value	Unrealized gains and losses
Year ended March 31, 2008	Due within 1 year	Due after 1 year	Total		
Petroleum products futures contracts					
Sell	**¥ 253**	**¥—**	**¥ 253**	**¥ 244**	**¥ 9**
Buy	**890**	**—**	**890**	**917**	**27**
Petroleum products forward contracts		**—**			
Sell	**1,109**	**—**	**1,109**	**1,206**	**(97)**

					Thousands of U.S. dollars (Note 1)
			Contract amounts	Market value	Unrealized gains and losses
Year ended March 31, 2008	Due within 1 year	Due after 1 year	Total		
Petroleum products futures contracts					
Sell	**$ 2,525**	**$—**	**$ 2,525**	**$ 2,435**	**$ 90**
Buy	**8,883**	**—**	**8,883**	**9,153**	**270**
Petroleum products forward contracts					
Sell	**11,069**	**—**	**11,069**	**12,037**	**(968)**

Note 12. Retirement and Severance Benefits

The Company and its domestic consolidated subsidiaries provided funded non-contributory pension plans and unfunded lump-sum payment plans, under which all eligible employees were 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 until the year ended March 31, 2007.

From the year ended March 31, 2008 the Company and some of its domestic consolidated subsidiaries provide a defined-benefit pension plan, a defined-contribution pension plan, an advance-payment plan for retirement benefits and an additional retirement benefit plan. Other domestic consolidated subsidiaries provide funded non-contributory pension plans and unfunded lump-sum payment plans, under which all eligible employees are entitled to benefit based on their 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, 2007 and 2008 consist of the following:

March 31, 2007	Millions of yen
Projected benefit obligation	¥(90,398)
Pension assets	94,448
Unrecognized actuarial differences	(935)
Unrecognized prior service cost	(347)
Prepaid pension costs	(7,048)
Sub-total	(4,280)
Retirement benefits for directors and corporate auditors	(334)
Liabilities for retirement and severance benefits	¥ (4,614)

March 31, 2008	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligation	**¥(70,436)**	**$(703,024)**
Pension assets	**64,244**	**641,221**
Unrecognized actuarial differences	**14,293**	**142,659**
Unrecognized prior service cost	**(1,763)**	**(17,597)**
Prepaid pension costs	**(12,639)**	**(126,150)**
Liabilities for retirement and severance benefits	**¥ (6,301)**	**$ (62,891)**

Included in the consolidated statements of income for the years ended March 31, 2006, 2007 and 2008 are retirement and severance benefit expenses comprised of the following:

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
Service costs	¥ 3,040
Interest cost on projected benefit obligation	1,377
Expected return on plan assets	(3,040)
Amortization of prior service cost	(23)
Amortization of net actuarial loss	759
Retirement and severance benefit expenses	¥ 2,113

March 31, 2008	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs	**¥ 2,055**	**$ 20,511**
Interest cost on projected benefit obligation	**1,087**	**10,849**
Expected return on plan assets	**(2,802)**	**(27,967)**
Amortization of prior service cost	**(208)**	**(2,076)**
Amortization of net actuarial loss	**602**	**6,009**
Other costs	**420**	**4,192**
Retirement and severance benefit expenses	**¥ 1,154**	**$ 11,518**

Actuarial assumptions used in computation of retirement and severance liabilities for the year ended March 31, 2008 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	From 8 to 10 years (a prorated amount will be amortized by the straight-line method over a certain number of years within the estimated average number of remaining service years of employees, starting from the year following the year when actuarial gain/loss is incurred)
e. Amortization of prior service cost	From 8 to 10 years (a prorated amount will be amortized by the straight-line method over a certain number of years within the estimated average number of remaining service years of employees, starting the year when prior service cost is incurred)

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, 2007 and 2008:

	2007	**2008**
Statutory income tax rate	40.44%	**40.44%**
Increase (decrease) in taxes resulting from:		
Non-Japanese taxes	16.84	**14.06**
Non-deductible revenue	(2.01)	**(0.88)**
Non-deductible expenses	1.02	**0.82**
Effect on equity in earnings of affiliates	(5.63)	**(3.67)**
Valuation allowance	2.68	**5.74**
Other	0.96	**1.12**
Effective income tax rate	54.30%	**57.63%**

Significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2007 and 2008 were as follows:

Year ended March 31, 2007	Millions of yen
Current deferred tax assets:	
Unrealized gains	¥ 2,833
Excess bonuses accrued	2,015
Other	2,196
Total current deferred tax assets	7,044
Valuation allowance	(3)
Total current deferred tax assets, net of valuation allowance	7,041
Account offset against deferred tax liabilities	(2,086)
Net current deferred tax assets	¥ 4,955
Current deferred tax liabilities:	
Unrealized gains on hedging derivatives	¥(11,063)
Other	(568)
Total current deferred tax liabilities	(11,631)
Account offset against deferred tax assets	2,086
Net current deferred tax liabilities	¥ (9,545)
Non-current deferred tax assets:	
Impairment loss on fixed assets	¥ 6,684
Loss carried forward	4,807
Investments in securities	4,766
Depreciation	2,748
Allowance for special repair works	1,706
Costs for retirement and severance benefits	1,501
Allowance for doubtful accounts	882
Golf-club membership	809
Other	2,723
Total non-current deferred tax assets	26,626
Valuation allowance	(3,375)
Total non-current deferred tax assets, net of valuation allowance	23,251
Account offset against deferred tax liabilities	(20,070)
Net non-current deferred tax assets	¥ 3,181
Non-current deferred tax liabilities:	
Reserve for deferred gains on sales of fixed assets for tax purposes	¥(11,704)
Non-Japanese taxes	(9,453)
Net unrealized gains on securities	(8,981)
Other	(3,378)
Total non-current deferred tax liabilities	(33,516)
Account offset against deferred tax assets	20,070
Net non-current deferred tax liabilities	¥(13,446)
Deferred tax asset and liability related to land revaluation:	
Deferred tax asset related to land revaluation	¥ 15,952
Valuation allowance	(5,688)
Total deferred tax asset related to land revaluation, net of valuation allowance	10,264
Deferred tax liability related to land revaluation	(34,016)
Net deferred tax liability related to land revaluation	¥(23,752)

Year ended March 31, 2008	Millions of yen	Thousands of U.S. dollars (Note 1)
Current deferred tax assets:		
Unrealized gains	¥ 3,856	$ 38,487
Excess bonuses accrued	2,002	19,982
Other	2,448	24,433
Total current deferred tax assets	8,306	82,902
Valuation allowance	(9)	(89)
Total current deferred tax assets, net of valuation allowance	8,297	82,813
Account offset against deferred tax liabilities	(2,849)	(28,436)
Net current deferred tax assets	¥ 5,448	$ 54,377
Current deferred tax liabilities:		
Deferred gains on hedges	¥(13,053)	$(130,282)
Other	(160)	(1,597)
Total current deferred tax liabilities	(13,213)	(131,879)
Account offset against deferred tax assets	2,849	28,436
Net current deferred tax liabilities	¥(10,364)	$(103,443)
Non-current deferred tax assets:		
Impairment loss on fixed assets	¥ 7,583	$ 75,686
Depreciation	2,841	28,356
Investments in securities	2,728	27,228
Costs for retirement and severance benefits	2,371	23,665
Retirement benefit trust	1,991	19,872
Other	6,932	69,189
Total non-current deferred tax assets	24,446	243,996
Valuation allowance	(8,852)	(88,352)
Total non-current deferred tax assets, net of valuation allowance	15,594	155,644
Account offset against deferred tax liabilities	(12,120)	(120,970)
Net non-current deferred tax assets	¥ 3,474	$ 34,674
Non-current deferred tax liabilities:		
Reserve for deferred gains on sales of fixed assets for tax purposes	¥(11,691)	$(116,688)
Non-Japanese taxes	(8,022)	(80,068)
Prepaid pension costs	(5,112)	(51,023)
Other	(4,102)	(40,942)
Total non-current deferred tax liabilities	(28,927)	(288,721)
Account offset against deferred tax assets	12,120	120,970
Net non-current deferred tax liabilities	¥(16,807)	$(167,751)
Deferred tax asset and liability related to land revaluation:		
Deferred tax asset related to land revaluation	¥ 15,736	$ 157,062
Valuation allowance	(15,736)	(157,062)
Deferred tax liability related to land revaluation	(33,947)	(338,826)
Net deferred tax liability related to land revaluation	¥(33,947)	$(338,826)

Note 14. Impairment on Fixed Assets

The Company and its consolidated subsidiaries ("the Companies") classified fixed assets into groups according to their respective business types, 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 the overall deterioration of its business environment, book value of these fixed assets was reduced to recoverable amounts and impairment losses of ¥2,440 million and ¥4,511 million ($45,024 thousand), consisting of the following, were recognized for the years ended March 31, 2007 and 2008.

Year ended March 31, 2007			Impairment loss
Use	Location	Type of assets	Millions of yen
Petroleum	Cosmo Oil Sales Co., Ltd. service stations	Land	¥ 420
	Tokorozawa-shi, Saitama and 9 others	Other	230
			650
Buildings for rent	Cosmo Oil Sales Co., Ltd.	Land	37
	Fukushima-shi, Fukushima		
			37
Idle assets	Cosmo Oil Co., Ltd.	Land	1,273
	Kitakyushu-shi, Fukuoka and 110 others	Other	480
			1,753
Total			¥2,440

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 case of material assets.

Year ended March 31, 2008			Impairment loss	
Use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars (Note 1)
Petroleum	**Cosmo Property Service Corp. service stations**	**Land**	**¥ 255**	**$ 2,545**
	Fukushima-shi, Fukushima and 7 others	**Other**	**127**	**1,268**
			382	**3,813**
Buildings for rent	**Cosmo Oil Co., Ltd.**	**Other**	**101**	**1,008**
	Kuze-gun, Kyoto			
			101	**1,008**
Idle assets	**Cosmo Oil Co., Ltd.**	**Land**	**2,790**	**27,847**
	Kobe-shi, Hyogo and 124 others	**Other**	**1,238**	**12,356**
			4,028	**40,203**
Total			**¥4,511**	**$45,024**

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 ongoing 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 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, 2006, 2007 and 2008, summarized product group business operations of the Company and its consolidated subsidiaries were as follows:

						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)	¥ 36,126

Year ended March 31, 2008	Millions of yen					
	Petroleum	Oil exploration and production	Other	Total	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥3,441,558	¥ 32,250	¥49,279	¥3,523,087	¥ —	¥3,523,087
Inter-segment	628	51,819	49,731	102,178	(102,178)	—
Total	3,442,186	84,069	99,010	3,625,265	(102,178)	3,523,087
Operating expenses	3,402,871	40,615	96,434	3,539,920	(100,630)	3,439,290
Operating income (loss)	¥ 39,315	¥ 43,454	¥ 2,576	¥ 85,345	¥ (1,548)	¥ 83,797
Identifiable assets, depreciation and amortization, impairment loss on fixed assets and capital expenditures:						
Assets	¥1,439,281	¥145,242	¥40,958	¥1,625,481	¥ 2,423	¥1,627,904
Depreciation and amortization	¥ 25,666	¥ 7,850	¥ 153	¥ 33,669	¥ (429)	¥ 33,240
Impairment loss on fixed assets	¥ 4,511	¥ —	¥ —	¥ 4,511	¥ —	¥ 4,511
Capital expenditures	¥ 36,189	¥ 13,721	¥ 180	¥ 50,090	¥ (1,132)	¥ 48,957

Year ended March 31, 2008	Thousands of U.S. dollars (Note 1)					
	Petroleum	Oil exploration and production	Other	Total	Elimination or corporate	Consolidated
Net sales:						
Outside customers	$34,350,314	$ 321,889	$491,855	$35,164,058	$ —	$35,164,058
Inter-segment	6,268	517,207	496,367	1,019,842	(1,019,842)	—
Total	34,356,582	839,096	988,222	36,183,900	(1,019,842)	35,164,058
Operating expenses	33,964,178	405,380	962,510	35,332,068	(1,004,391)	34,327,677
Operating income (loss)	$ 392,404	$ 433,716	$ 25,712	$851,832	$ (15,451)	$ 836,381
Identifiable assets, depreciation and amortization, impairment loss on fixed assets and capital expenditures:						
Assets	$14,365,516	$1,449,666	$408,802	$16,223,984	$ 24,184	$16,248,168
Depreciation and amortization	$ 256,173	$ 78,351	$ 1,528	$ 336,052	$ (4,282)	$ 331,770
Impairment loss on fixed assets	$ 45,024	$ —	$ —	$ 45,024	$ —	$ 45,024
Capital expenditures	$ 361,204	$ 136,950	$ 1,797	$ 499,951	$ (11,299)	$ 488,642

(2) Geographic segment information

Geographic segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006, 2007 and 2008 is disclosed as follows:

Year ended March 31, 2006	Millions of yen				
	Japan	Other	Total	Elimination or corporate	Consolidated
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, 2008	Japan	Other	Total	Elimination or corporate	Consolidated
					Millions of yen
Net sales:					
Outside customers	**¥3,404,003**	**¥119,084**	**¥3,523,087**	**¥ —**	**¥3,523,087**
Inter-segment	**93,026**	**361,972**	**454,998**	**(454,998)**	**—**
Total	**3,497,029**	**481,056**	**3,978,085**	**(454,998)**	**3,523,087**
Operating expenses	**3,455,606**	**437,715**	**3,893,321**	**(454,031)**	**3,439,290**
Operating income	**¥ 41,423**	**¥ 43,341**	**¥ 84,764**	**¥ (967)**	**¥ 83,797**
Assets	**¥1,456,136**	**¥201,808**	**¥1,657,944**	**¥ (30,040)**	**¥1,627,904**

Year ended March 31, 2008	Japan	Other	Total	Elimination or corporate	Consolidated
					Thousands of U.S. dollars (Note 1)
Net sales:					
Outside customers	**$33,975,476**	**$1,188,582**	**$35,164,058**	**$ —**	**$35,164,058**
Inter-segment	**928,496**	**3,612,856**	**4,541,352**	**(4,541,352)**	**—**
Total	**34,903,972**	**4,801,438**	**39,705,410**	**(4,541,352)**	**35,164,058**
Operating expenses	**34,490,528**	**4,368,849**	**38,859,377**	**(4,531,700)**	**34,327,677**
Operating income	**$ 413,444**	**$ 432,589**	**$ 846,033**	**$ (9,652)**	**$ 836,381**
Assets	**$14,533,746**	**$2,014,253**	**$16,547,999**	**$ (299,831)**	**$16,248,168**

(3) Overseas sales information

Overseas sales information is not disclosed, as overseas sales represent less than 10% of the consolidated net sales for the years ended March 31, 2006 and 2007.

Overseas sales information of the Company and its consolidated subsidiaries for the year ended March 31, 2008 is disclosed as follows:

Year ended March 31, 2008	Millions of yen	Thousands of U.S. dollars (Note 1)
Overseas net sales	**¥ 386,342**	**$ 3,856,093**
Consolidated net sales	**¥3,523,087**	**$35,164,058**
Overseas net sales share of consolidated net sales		**11.0%**

Note 16. Pledged Assets

Assets pledged as collateral at March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Land	¥231,476	¥230,308	$2,298,712
Buildings and structures at net book value	36,639	35,701	356,333
Machinery and equipment at net book value	74,203	67,119	669,917
Investments in securities	84	70	699
Total	¥342,402	¥333,198	$3,325,661

Secured liabilities at March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Long-term debts	¥157,089	¥139,326	$1,390,618
Debts relating to transactions with banks	20,996	20,996	209,562
Total	¥178,085	¥160,322	$1,600,180

Other pledged assets at March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Deposits as security for dealing:			
Marketable securities	¥44	¥10	$100
Investments in securities	9	9	90
Total	¥53	¥19	$190

Note 17. Subsequent Events

On June 24, 2008, the Company's annual shareholders' meeting approved the year-end cash dividend payment of ¥5.00 ($0.05) per share, or a total of ¥4,237 million ($42,290 thousand) to shareholders of record at March 31, 2008.

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, 2008 and 2007, the related consolidated statements of income for the three years in the period ended March 31, 2008, the consolidated statements of net assets for the years ended March 31, 2008 and 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for the three years in the period ended March 31, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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.

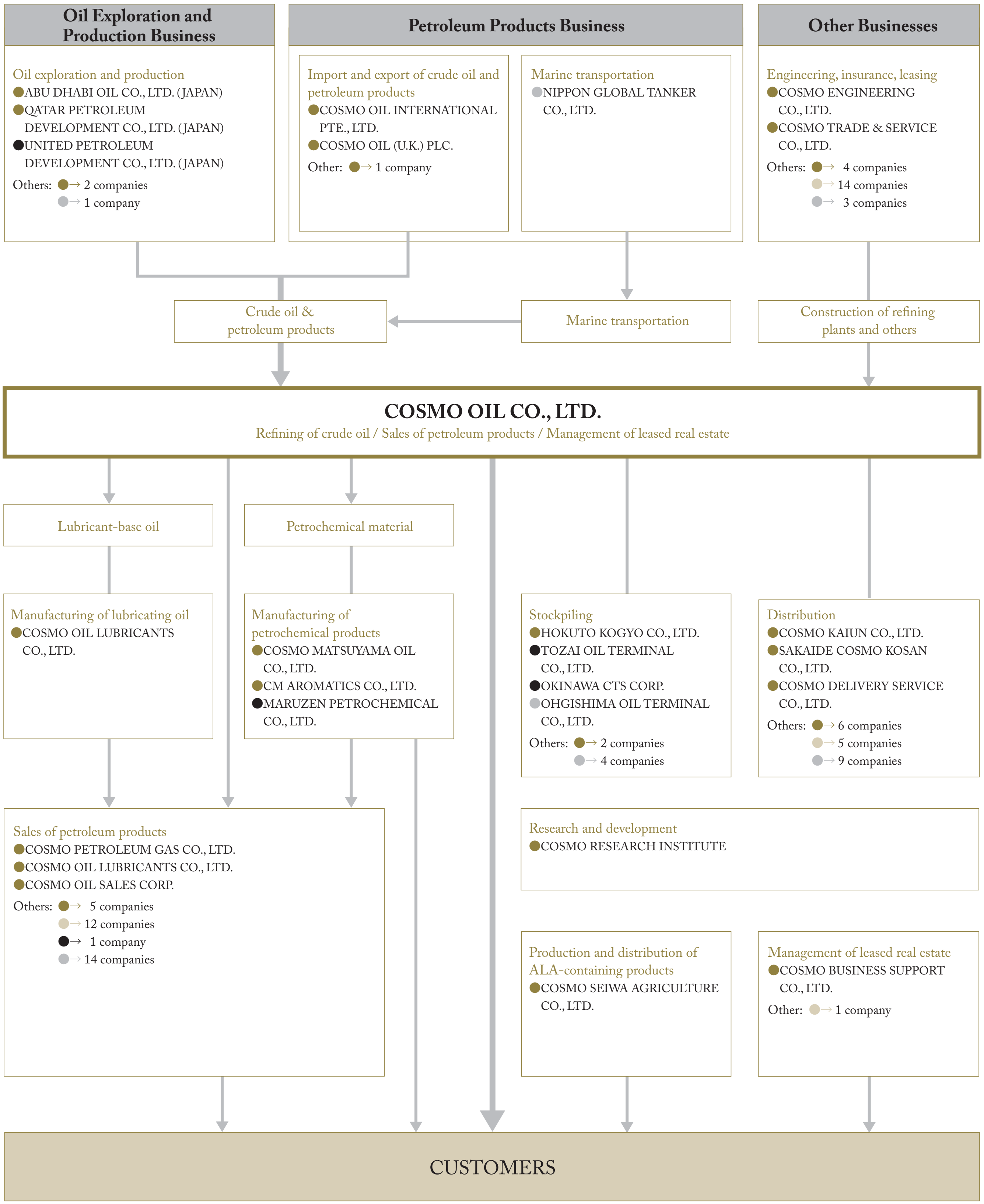
KPMG AZSA & Co.

Tokyo, Japan
June 24, 2008

Group Information Major Subsidiaries and Affiliates

(As of March 31, 2008)

● Consolidated subsidiaries
● Unaffiliated companies accounted for using the equity method
● Affiliated companies accounted for using the equity method
● Affiliated companies not accounted for using the equity method



Group Information Global Network

(As of March 31, 2008)

Japan

Oil Exploration & Production

Cosmo Energy Exploration & Development Co., Ltd.*
- Tokyo
- ¥5,088 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

†Note: in August 2007, Cosmo Oil Co., Ltd. holdings of stock in each respective development company were transferred to Cosmo Energy Exploration & Development Ltd., a 100%-owned subsidiary of Cosmo Oil Co., Ltd.

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 Corp.*
- Tokyo
- ¥80 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

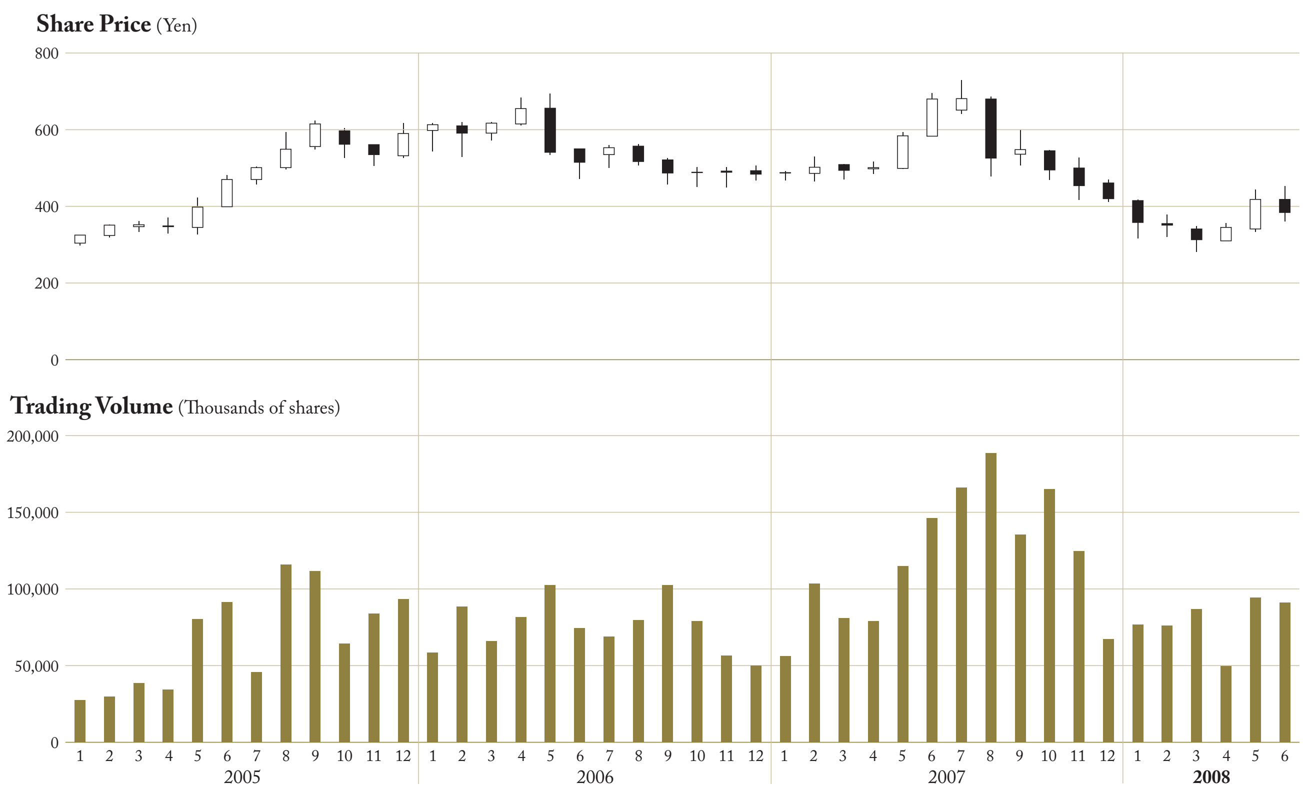
Cosmo Oil of U.S.A., Inc.*
- California
- US$3,550,000
- 100.0%
- Support for sales of petroleum products

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

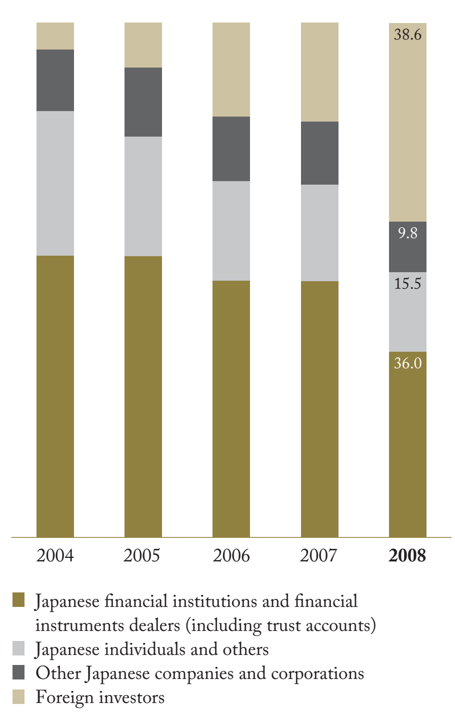


Principal Shareholders (As of March 31, 2008)

Shareholder	Investment in the Company: Number of shares owned (Thousands)	Investment in the Company: Percentage of total shares issued (%)
Infinity Alliance Limited*	176,000	20.76
Japan Trustee Services Bank, Ltd. (Trust account)	54,976	6.48
Mizuho Corporate Bank, Ltd.	31,320	3.69
Mitsui Sumitomo Insurance Co., Ltd.	21,878	2.58
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	19,750	2.32
The Kansai Electric Power Co., Inc.	18,600	2.19
Tokio Marine & Nichido Fire Insurance Co., Ltd.	17,335	2.04
The Master Trust Bank of Japan, Ltd. (Trust account)	16,145	1.90
Sompo Japan Insurance Inc.	15,792	1.86
Nippon Life Insurance Company	14,632	1.72

*Special-purpose company established by the International Petroleum Investment Company (IPIC)

Shares by Type of Shareholder (%)



Corporate Data

(As of March 31, 2008)

COSMO OIL CO., LTD.

Head Office	Toshiba Bldg., 1-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8528, Japan Phone: +81-3-3798-3211 Fax: +81-3-3798-3841 URL: http://www.cosmo-oil.co.jp
Established	April 1, 1986
Common Shares	Authorized: 1,700,000,000
Paid-in Capital	¥107,246,816,126
Type of Business	Refining and sales of oil products
Fiscal Year-End	March 31
Number of Employees	1,957
Number of Dealers	270
Refineries	Chiba, Yokkaichi, Sakai, Sakaide
Number of Common Shares Issued	847,705,087 shares
Registrar	The Chuo Mitsui Trust & Banking Co., Ltd.

Inquiries:

COSMO OIL CO., LTD.
Corporate Communication Department / IR Office
Toshiba Bldg., 1-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8528, Japan
Phone: +81-3-3798-3180
Fax: +81-3-3798-3841
E-mail: webmaster@cosmo-oil.co.jp

COSMO OIL CO., LTD.

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a waterless printing method and ink manufactured from soybean vegetable oil.

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