

(5)Notes to going concern

None

(6) Notes concerning Important Items that Provide the Basic Information for the Development of the Consolidated Financial Statements

1. Items concerning the Scope of Consolidation for Reporting

(1) Number of consolidated subsidiaries: 28

Cosmo Oil (Shanghai) Co., Ltd. is included in the consolidated subsidiaries of Cosmo Oil since it was established during FY2008 (the fiscal year that ended on March 31, 2009).

System Kikou Co., Ltd. is excluded from the consolidated subsidiaries of the Company since all of their shares owned by Cosmo Engineering Co., Ltd. sell during FY2008. Mikawa CSN Co., Ltd. is excluded from the consolidated subsidiaries of the Company since all of their shares owned by the Company sell during FY2008. Cosmo Engineering Co., Ltd. merged Cosmo Techno Service Co., Ltd. into itself during FY2008.

(2) Number of Non-consolidated Subsidiaries: 25

2. Items Concerning the Application of the Equity Method

(1) Number of Non-consolidated Subsidiaries Accounted for Using the Equity Method: 25

Chubu Shizai Co., Ltd. is included in the application of the equity method since it become part of the subsidiaries of the Company through stock acquisition during FY2008.

Tohoku Toyo Shouji Co., Ltd., Kansai LPG Center Co., Ltd., Esutekkusu Co., Ltd., and Nanyo Sekiyu Co., Ltd. are excluded from the application of the equity method since their liquidation processes are completed during FY2008.

Cosmo Gas Sendai Service Center Co., Ltd. was excluded from the application of the equity method since it was merged into Tohoku Cosmo Gas Co., Ltd. during FY2008.

Kanto Cosmo Gas Co., Ltd., Kinki Cosmo Gas Co., Ltd. and Hyogo Tsubame Propane Gas Sales Co., Ltd. were excluded from the application of the equity method since all of their shares owned by Cosmo Petroleum Gas Co., Ltd. are sold during FY2008.

(2) Number of Affiliated Companies Accounted for Using the Equity Method: 4

(3) Special Remarks Necessary to Make concerning the Procedures of the Application of the Equity Method:

As for the subsidiaries and affiliates which are subject to the application of the equity method and which have different accounting periods from that of the Company such business entities' financial statements for their accounting periods are used for reporting herein.

3. Items concerning the Accounting Periods of the Consolidated Subsidiaries

Of the 28 consolidated subsidiaries, Abu Dhabi Oil Co., Ltd., Cosmo Oil (U.K.) Plc., Qatar Petroleum Development Co., Ltd., Cosmo Oil Ashmore, Ltd., Cosmo Energy Exploration & Development Co., Ltd., Cosmo Oil International. Pte. Ltd., Cosmo Oil (Shanghai) Co., Ltd., and Cosmo Oil Sales Corp. adopt a fiscal year ending December 31, respectively.

The consolidated financial statements herein have been developed by using their financial reports as of December 31, 2008 and any material transactions arising between December 31, 2008 and March 31, 2009, the date for the consolidated settlement of accounts for the Company, are reflected on the consolidated financial statements herein by making necessary adjustments.

4. Items concerning the Accounting Standards

(1) Significant Asset Valuation Standards and Methods

1) Marketable securities

a. Securities held to maturity:

Stated at amortized cost method

b. Other securities:

- Securities available for sale with fair market value:

Stated at fair value based on market values applicable on the date of consolidated settlement of accounts (in which all differences between the carrying amounts and the fair values are reported as a separate component of net assets, while the cost of securities sold is calculated by the moving average method)

- Securities with no available fair market value:

Stated at cost determined by the moving average method

- 2) Inventories: Principally stated at cost determined by the weighted average method (however, the amounts of inventories stated in the balance sheets were computed by using the method that book values are reduced to reflect declines in profitability).  
(Change in Accounting Policy)  
Though conventionally, the Company had principally stated inventories at cost determined by the weighted average method, the new Accounting Standard for Inventory Valuation (the Accounting Standards Board of Japan (ASBJ) Standard No. 9 issued on July 5, 2006) became effective, which the Company complied with in application.  
This change increased operating loss, ordinary loss and loss before income taxes and minority interests for FY2008 by ¥8,498 million, respectively, as compared with the case when the conventional inventory valuation method is adopted.
- 3) Derivative financial instruments: Stated at fair value.

## (2) Significant Depreciable Assets and Depreciation Methods

### 1) Property, Plant and Equipment (except lease assets):

The straight line method is mainly adopted to calculate depreciation expenses for these asset items. The number of years of their useful lives and their residual value are calculated based on the criteria defined under the Corporation Tax Law of Japan, providing that the economic useful life of 15 years is adopted for the Company's service stations by taking their actual past performances into consideration. For Abu Dhabi Oil Co., Ltd., a consolidated subsidiary of the Company, is adopted the number of years for useful life provided under the interest right agreement on the subsidiary signed by the investment partners thereto.

#### (Additional Information)

The Company and some of its consolidated subsidiaries used the number of years for useful life defined under the revised Corporate Income Tax Law of Japan, starting from FY2008.

This change increased depreciation expenses of property, plant and equipment by ¥1,691 million and thus increased operating loss, ordinary loss and loss before income taxes and minority interests for FY2008 by ¥1,578 million, respectively, as compared with the conventional number of years adopted for useful life.

### 2) Intangible Fixed Assets

The straight line method is mainly adopted to calculate depreciation expenses for these asset items. The number of years of their useful lives is calculated based on the criteria defined under the Corporate Income Tax Law of Japan, providing that amortization expenses for the software used by the Company is calculated on the straight line method over the period of its availability in-house (5 years).

### 3) Lease assets :

Leased assets involving finance lease transactions under which the ownership of the leased assets is transferred to lessees:

The method to calculate depreciation expenses for such assets is the same as that applied to fixed assets owned by the Company.

Leased assets involving finance lease transactions under which the ownership of the leased assets is not transferred to lessees:

The method to calculate depreciation for such assets is the straight line method with their residual values being zero over their leased periods used as the number of years for useful life.

Out of finance lease transactions other than those under which the ownership of the leased assets is considered to be transferred to lessees, such transactions, of which the lease term each commenced before the initial year of the application of the ASBJ Statement No. 13 "Accounting Standards for Lease Transactions," are continuously accounted for in conformity with the accounting process applicable to operating lease transactions.

### 4) Long-term Prepaid Expenses

The equal installment method is adopted to calculate depreciation expenses for these account items over the period defined under the Corporate Income Tax Law of Japan.

(3) Standards for Recording Significant Allowances

1) Allowance for Doubtful Accounts

An estimated amount of irrecoverable debts is set aside against any potential losses on the failure to collect the accounts receivable.

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|---|---|
| a. Ordinary accounts receivable:  | The amount of allowance calculated at the actual ratio of bad debts   |
| b. Highly doubtful receivables and claims in bankruptcy and reorganization, etc.: | The amount of allowance calculated based on the evaluation of financial situations of individual accounts involved. |

2) Provision for loss on construction contracts

A reserve is set aside to cover future losses arising from construction projects for which orders have been won by some consolidated subsidiaries, in an amount equal to estimated losses involving undelivered projects as of the end of the current consolidated accounting period.

3) Allowance for Special Repair Work

An allowance is set aside to cover expenses arising from the inspection and repairs of the oil tanks subject to the open regular inspection in compliance with the Fire Service Law of Japan, and an amount equal to the estimated cost of periodically required repairs was added to the provision for FY2008.

As for Cosmo Matsuyama Oil Co., Ltd., one of the subsidiaries of the Company, a certain amount of money to cover expenses arising from regular repairs of the machinery and equipment of its refinery was recorded for FY2008 in addition to the above charge.

4) Retirement and Severance Benefits for Employees

An allowance is put aside to cover retirement and severance benefits payable to employees and a certain amount was recorded based on the estimated amount of projected benefit obligation and the fair value of the pension assets as of March 31, 2009.

Actual gains and losses are recognized in expenses at an amount prorated in the straight line method over a certain number of years (from 8 to 10 years), which is within the average of the estimated remaining years of service to be performed by the employees at the time of accrual, commencing with the fiscal year following the accrual time.

Prior service cost obligation is recognized as an expense item at an amount prorated in 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.

At the Company and some of its consolidated subsidiaries, the pension plan asset amounts exceeded the projected benefit obligation amounts after the deduction of unrecognized actuarial differences, and these excess portions are stated in the "Other" item of the "Investment and other assets" account on the balance sheet herein.

(4) Standards for Conversion of Significant Foreign Currency-Denominated Assets and Liabilities into Japanese Yen

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

All the items of the financial statements of subsidiaries which are stated in currencies other than Japanese yen, are translated into Japanese yen at the fiscal year-end spot exchange rate of each subsidiary. The resulting foreign currency translation adjustments are included among adjustments in net assets.

(5) Significant Hedge Accounting Methods

1) Hedge Accounting Methods

The deferred hedge accounting method is used to process hedging transactions, providing that the exceptional method is applied to treat interest rate swap contracts that meet the requirements for exceptional treatments as established by the Company.

2) Hedging Instruments and Hedged Items

(Currency)

Hedging Instrument

Forward exchange

Currency option

(Interest rate)

Hedging Instrument

Interest rate swap

(Commodity)

Hedging Instrument

Crude oil and oil product forward

Crude oil color and option

Hedged Item

Foreign currency credit and debt

Hedged Item

Borrowings

Hedged Item

Purchases and sales of crude oil and oil products

### 3) Hedging 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 rates and commodity prices.

### 4) Method of Evaluating Hedge Effectiveness

The Company evaluates hedge effectiveness once every six months by comparing cumulative changes in cash flows from or changes in fair value of hedged items, with the corresponding changes in the hedging 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.

## (7) Other Important Items Necessary to Develop Consolidated Financial Statements

### 1) Standards for Recognition of Construction Revenue

Some of the Company's consolidated subsidiaries recognize their construction revenues by using the completed contract method, providing that long-term and large engineering contracts (whose terms are one year or more and of which the contract amount is ¥100 million or more) are recognized by the percentage of completion method.

### 2) Accounting Process for Consumption Tax

As for how to account for national and local consumption taxes, all domestic transactions are accounted for by excluding these tax amounts from the amounts thereof.

### 3) Accounting Process for Cost Recovery under Production Sharing

Some consolidated subsidiaries account for crude oil exploration and development and other related costs spent under the production sharing agreements. After the inception of crude oil production, they recover these costs by receiving products under the same agreements. They are stated in the "Other" item of the "Investment and other assets" account on the balance sheet herein.

### 5. Items concerning the Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of the consolidated subsidiaries are stated at fair value.

### 6. Items concerning Amortization on Goodwill, Positive and Negative

Positive and negative goodwill items are in principle amortized in accordance with the equal installment method over five years, providing that small-amount and negative ones are amortized in a lump sum.

### 7. Scope of Cash and Cash Equivalents Reported in Statements of Cash Flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term investments, which are highly liquid, only exposed to small risks for value changes and have maturities of terms not exceeding three months at the time of purchase, are considered to be cash and cash equivalents.

(7) Change in notes concerning Important Items that Provide the Basic Information for the Development of the Consolidated Financial Statements

(The Accounting Standard for Inventory Valuation)

Though conventionally, the Company had principally stated inventories at cost determined by the weighted average method, the new Accounting Standard for Inventory Valuation (the Accounting Standards Board of Japan (ASBJ) Standard No. 9 issued on July 5, 2006) became effective, which the Company complied with in application.

This change increased operating loss, ordinary loss and loss before income taxes and minority interests for FY2008 by ¥8,498 million, respectively, as compared with the case when the conventional inventory valuation method is adopted.

(Accounting Process Applied to Foreign Subsidiaries)

The Company's consolidated subsidiaries outside Japan are accounted for in accordance with the "Practical Solution on Unification of Accounting Policies to Foreign Subsidiaries for Consolidated Financial Statements" (the Practical Issues Task Force Report No. 18 issued on May 17, 2006)."

(Accounting Standard for Lease Transactions)

Financial lease transactions which do not transfer ownership had conventionally been accounted for in a similar manner to the accounting treatment for rental transactions. However, the Company, effective from the consolidated fiscal year 2008, adopted the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, originally issued by the First Subcommittee of the Business Accounting Council on June 17, 1993 and revised on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, originally issued by the Law and Regulation Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised on March 30, 2007) to account for such transactions in a manner similar to the accounting treatment for ordinary sale and purchase transactions.

Finance lease transactions which commenced before the initial year of the adoption of the accounting standard and the guidance thereon by the Company and which do not transfer ownership continue to be accounted for in a similar manner to the accounting treatment for ordinary rental transactions.

This change, however, only brought a minor impact on operating loss, ordinary loss and net loss before income taxes and minority interests for FY2008.