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## CONSOLIDATED 11-YEAR SUMMARY

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

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

Notes: 1. U.S.dollar amounts in this report have been translated, for convenience only, at the exchange rate of ¥107.39=\$1.00, the prevailing rate at March 31,2005.

2. Effective fiscal 2003, the Company adopted a new standard for earnings per share; prior year figures have not been restated.

3. The Company began reporting R&D expenses from fiscal 2000.

Millions of Yen

Thousands of  
U.S. Dollars

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Environment

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

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

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

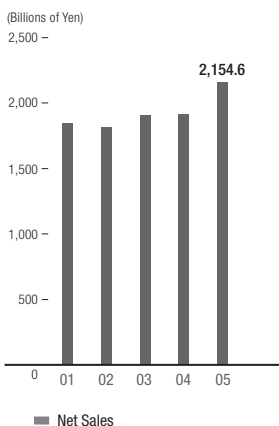
### Overview of the Fiscal Year

#### Net Sales

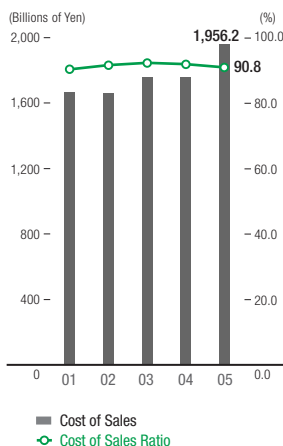
Consolidated net sales for the year ended March 31, 2005 (the fiscal year under review) were ¥2,154.6 billion and ¥238.3 billion or 12.4% higher than the previous fiscal year. In the Petroleum business segment, while heavy fuel oil C sales to the electric power industry declined, unusually hot weather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

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

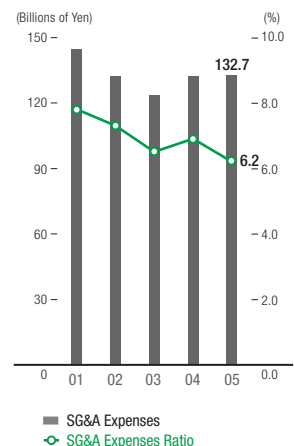
#### Net Sales



#### Cost of Sales & Cost of Sales Ratio



#### SG&A Expenses & SG&A Expenses Ratio



## Operating Income

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

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

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

## Other Income (Expenses)

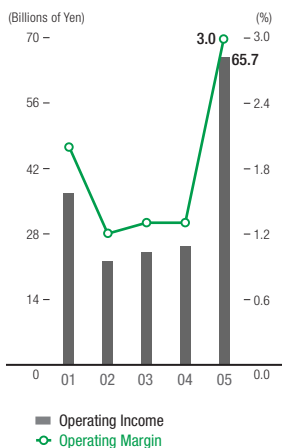
Net other expenses deteriorated by ¥10.5 billion and were ¥18.2 billion, mainly because of the early adoption of impairment accounting and the recording of ¥11.3 billion of impairment loss. This loss was related to impairment recognized for major idle assets such as service stations and oil depots.

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

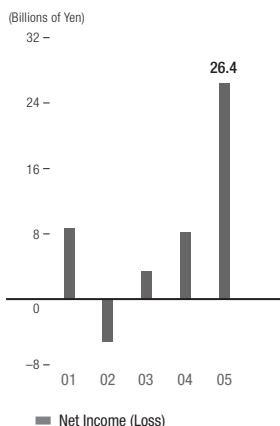
On the other hand, improvement factors included (1) 102.7% year-on-year or a ¥2.8 billion increase in earnings from the equity in earnings of affiliates to ¥5.5 billion, (2) a ¥383 million decline in interest expenses to ¥11.5 billion because of interest-bearing debt reductions, and (3) a ¥653 million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

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

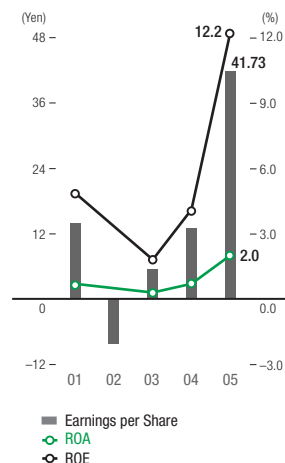
### Operating Income & Operating Margin



### Net Income (Loss)



### Earnings per Share



## Net Income for the Period

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

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

## Segment Information

### Petroleum

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

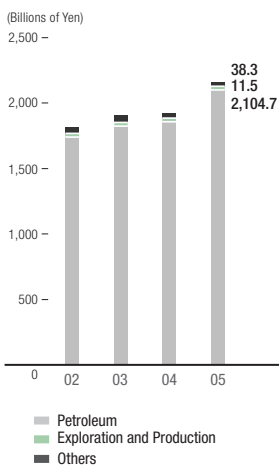
In terms of petroleum demand by product, while improving nuclear plant operating ratios led to a 9.9% year-on-year decline in heavy fuel oil C sales to the electric power industry, unusually hot weather and a recovering economy supported firm growth of gasoline (+2.2%), diesel fuel (+1.5%) and heavy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

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

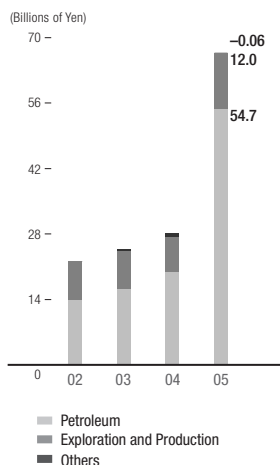
### Oil Resource Development

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

## Segment Sales



## Segment Operating Income



## Crude Oil Price (Dubai)



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

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

### Other

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

### Sources of Liquidity and Funds

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

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

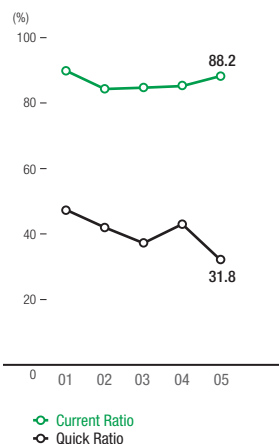
While the Group plans to make strategic capital expenditures under the new mid-term management plan, it will at the same time continue to use a portion of cash flows to reduce interest-bearing debt into order to further strengthen the Group's financial structure. In addition, the Group in the future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

### Financial Position

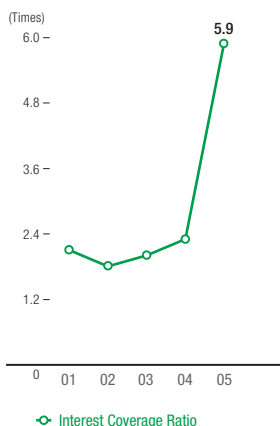
#### Assets

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

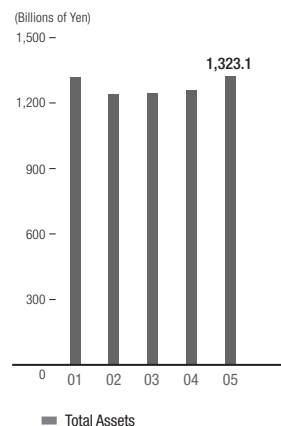
#### Current Ratio & Quick Ratio



#### Interest Coverage Ratio



#### Total Assets



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

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

### Liabilities and Shareholders' Equity

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

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

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

### Cash Flows

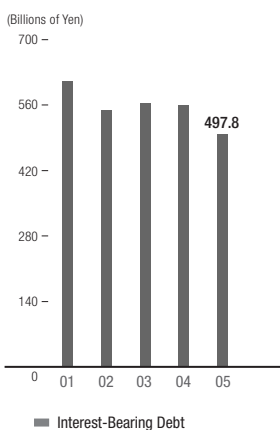
Net cash provided by operating activities was ¥40.5 billion. Excluding the impact of payments for gasoline excise taxes and petroleum taxes deferred from the previous fiscal year, adjusted net cash provided by operating activities was ¥75.5 billion, and ¥8.7 billion or 13% higher than net cash flow in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

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

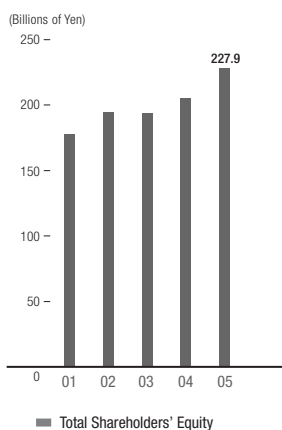
Net cash used in financing activities was ¥70.2 billion, largely due to repayment of interest-bearing debt.

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

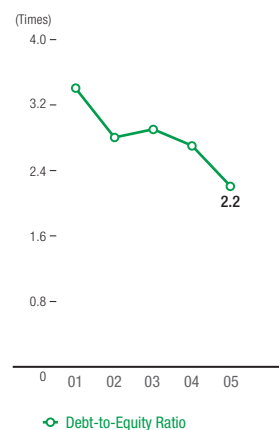
### Interest-Bearing Debt



### Total Shareholders' Equity



### Debt-to-Equity Ratio



## Capital Expenditures

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

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

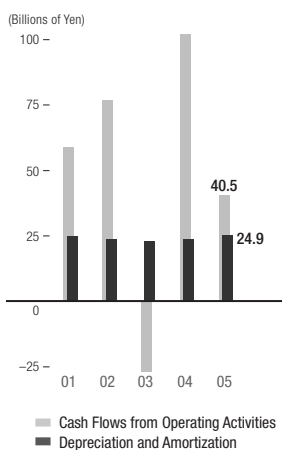
## Basic Policy regarding Earnings Appropriation

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

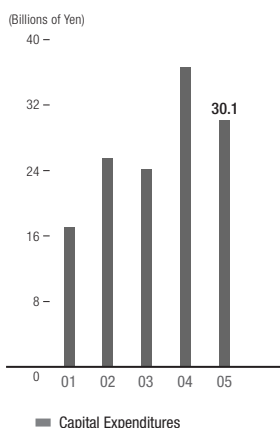
## Business and Other Risks

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

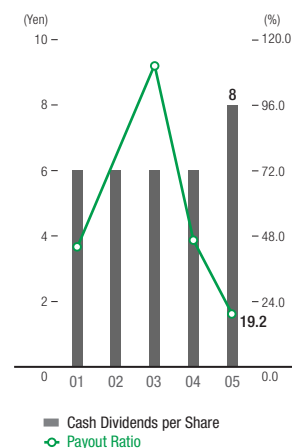
### Cash Flows from Operating Activities & Depreciation and Amortization



### Capital Expenditures



### Cash Dividends per Share & Payout Ratio



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

(1) Supply-Demand Trends

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

(2) Crude Oil Price Fluctuations

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

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

(3) Foreign Exchange Rate Fluctuations

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

(4) Market Impact

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

(5) Interest Rate Fluctuations

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

(6) Asset Value Fluctuations

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

(7) Impact of Natural Disasters and Accidents

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

(8) Management of Personal Information

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

## Outlook

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

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

## CONSOLIDATED BALANCE SHEETS

Cosmo Oil Company, Limited and its Consolidated Subsidiaries March 31

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

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

The accompanying notes are an integral part of these statements.



# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

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

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

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

The accompanying notes are an integral part of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### Note 1. Summary of Accounting Policies

#### (1) Basis of presenting consolidated financial statements

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

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

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

#### (2) Reporting entity

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

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

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

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

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

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

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

#### (3) Statements of cash flows

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

#### (4) Conversion of foreign currencies and translation of statements

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

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

#### **(5) Allowance for doubtful accounts**

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

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

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

#### **(7) Inventories**

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

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

#### **(8) Property, plant and equipment and depreciation**

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

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

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

#### **(9) Research and development costs**

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

#### **(10) Retirement and severance benefits and pension costs**

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

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

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

(b) Retirement benefits for directors and corporate auditors

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

#### **(11) Allowance for special repair works**

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

## **(12) Finance leases**

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

## **(13) Shareholders' equity**

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

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

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

## **(14) Derivative transactions and hedge accounting**

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

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

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

## **(15) Income taxes**

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

## **(16) Revenue Recognition**

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

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

## **(17) Earnings per share**

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

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

#### **(18) Allowance for loss on engineering contracts**

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

#### **(19) Reclassifications**

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

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

### **Note 2. Changes in accounting policy**

#### **(1) Change of recognition of construction revenue**

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

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

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

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

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

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

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

The change did not have any effect on segment information.

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

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

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

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

#### **(4) Adoption of impairment on fixed assets**

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

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

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

### Note 3. Inventories

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

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

### Note 4. Notes to the consolidated statements of cash flows

(a) Cash and deposits, and cash equivalents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Note 6. Revaluation reserve for land

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

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

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

## Note 7. Lease transactions

### A. Lessee leases

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

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

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

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

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

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

#### B. Lessor leases

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

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

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

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

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

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

## Note 8. Contingencies

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

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

## Note 9. Securities

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

### As of March 31, 2004

(a) Held to maturity debt securities

Bonds with fair value

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

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

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

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

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

The following table summarizes book values of securities without fair value

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

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

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

### As of March 31, 2005

#### (a) Held-to-maturity debt securities

Bonds with fair value

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

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

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

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

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

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

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

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

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

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

## Note 10. Derivative financial instruments and hedging transactions

### (1) Nature and objective of derivative transactions

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

#### A. Hedging instruments and hedged items

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

#### B. Hedge policy

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

#### C. Method of evaluating hedge effectiveness

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

### (2) Operating policy of derivative transactions

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

### (3) Risks related to derivative transactions

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

### (4) Management of risks related to derivative transactions

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

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

### (5) Other

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

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

#### (1) Currency related

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

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

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

(2) Interest rate related

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

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

(3) Commodity related

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

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

## Note 11. Retirement and severance benefits

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

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

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

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

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

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

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

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

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

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

## Note 12. Income taxes

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2005:

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

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

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

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

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

### Note 13. Impairment on fixed assets

The Company and its consolidated subsidiaries ("the Company") classified fixed assets into groups by the type of respective business, which are the minimum units generating cash flows. For fixed assets in the petroleum business,

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

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

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

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

## Note 14. Segment information

### (1) Business segment information

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

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

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

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

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

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

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

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

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

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

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

## (2) Geographic Segment information

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

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

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

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

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

### (3) Exports sales Information

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

### Note 15. Pledged assets

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

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

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

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

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

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

### Note 16. Subsequent events

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

## INDEPENDENT AUDITORS' REPORT

To Board of Directors of  
COSMO OIL COMPANY, LIMITED:

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

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

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

Without qualifying our opinion, we draw attention to the following.

- (1) As discussed in Note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2005, COSMO OIL COMPANY, LIMITED changed the method of the accounting for retirement benefits for directors and corporate auditors.
- (2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2004, COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries adopted the new accounting standard for impairment on fixed assets.
- (3) As discussed in Note 2 to the consolidated financial statements, for the year ended March 31, 2004, some of consolidated subsidiaries of COSMO OIL COMPANY, LIMITED changed classification of logistics expense and subcontracting work expense from cost of sales to selling, general and administrative expense.
- (4) As discussed in Note 14 to the consolidated financial statements, effective April 1, 2002, COSMO OIL COMPANY, LIMITED and its consolidated subsidiaries changed its business segment and allocation method of operating expenses.

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

KPM&A ZSA & Co.

Tokyo, Japan  
June 29, 2005