

(Attached Documents)

## BUSINESS REPORT

(From April 1, 2010 to March 31, 2011)

### 1. Business Overview

#### (1) Review of Operations of the Group

In this consolidated fiscal year, despite signs of an upturn in **Japan's economy** due to expectations for gradual recovery of the global economy and an increase in exports and steady personal consumption, from the summer onward the economy continued to tread water because of factors including rapid yen appreciation and sluggish export growth. In these circumstances, **domestic demand for petroleum products** stagnated because of the growing shift from heavy fuel oil A to other energy sources and energy-saving measures, etc., which offset robust demand for gasoline and diesel fuel and increased demand for kerosene owing to a cold winter.

As for the **crude oil price**, Dubai crude oil, which began the term at around \$80/barrel and moved in the mid to high \$60 to low to mid- \$80/barrel range, rose sharply from January onward against a backdrop of an increasingly tense international situation characterized by political unrest in Africa and the Middle East and reached the \$109/barrel range at the end of the term. The average price throughout the term was around \$84/barrel, about \$15 higher than the previous term.

With respect to **exchange rates**, the yen appreciated throughout the first half of the term from the ¥93 per dollar level at the beginning of the term, due to a flow of capital into the yen prompted by the sovereign debt crisis in Europe. Subsequently, the exchange rate moved in the low to mid- ¥80 per dollar range in the second half. Although the dollar weakened to the ¥76 per dollar level due to market volatility, which was triggered by the Great East Japan Earthquake in March, the term ended with the exchange rate at the ¥83 per dollar level due to factors including joint intervention by the G7 nations. As for domestic **product market conditions**, service station prices as well as delivery price for industrial use followed an upward trend amid rising crude oil prices.

In this business environment, in the first year of its Fourth Stage Consolidated Medium-Term Management Plan (FY2010 to FY2012) for the three-year period starting in FY2010, **the Cosmo Oil Group** made concerted efforts to implement drastic “rationalization” and company-wide “change” toward the achievement of this Management Plan.

#### Petroleum Business

Regarding **sales**, the Company has promoted such distribution structure enhancements as the improvement of the gasoline sales to fuel oil sales ratio, the expansion of sales outlets with high profitability and has worked to enhance the overall company sales force. In sales at service stations, the Company redoubled its efforts for promoting “Cosmo The Card,” a self-issued credit card that is one of the most heavily subscribed cards in the business sector. As a result, the number of valid cards increased by 100 thousand over the previous term to 3,670 thousand. The Company will continue to work toward further expansion and retention of the number of members in the future as well. Moreover, the Company has deployed a sales promotion program, “Filling Up Your Hearts, Too—Proclamation 2010,” which aims at compliance with related laws and regulations, the provision of a high level of satisfaction to customers, and maintenance of the strong competitiveness of Cosmo Oil Group service stations. Specifically, we carried out corporate social responsibility (CSR) diagnosis surveys and customer satisfaction surveys conducted by external research firms, and service station service diagnosis surveys by external monitors, in order to improve the brand value and competitiveness of the Cosmo Oil Group and to have its service stations be the ones that customers choose. In December, we launched the “COSMO B-CLE LEASE” auto leasing business, an original service for Cosmo Oil Group service station customers, to provide through the service station network a variety of new products and services to enhance driving comfort and convenience for customers. Furthermore, the Company continued to install energy-saving LED light sources at environment-friendly service stations and to offer bio-gasoline. In addition, in a joint effort with Three F Co., Ltd. and Energygreen Co., Ltd. in support of a Kanagawa Prefecture initiative to promote electric vehicles, in July we installed electric vehicle charging equipment at two Three F stores in Yokohama and commenced the “Green Power Charging Service,” a charging service that attested to the environmental value added created by the solar power generation facilities at the Group's service stations. In overseas sales, work has continued in the expansion of sales outlets, which are expected to produce a stable income, such as outlets for diesel oil and jet fuel in the Pacific region, especially in Oceania and North and South America.

Next, as for **the procurement of crude oil and petroleum products**, while working to further reinforce its relationships with oil-producing countries in the Middle East and flexibly responding to fluctuations in the supply-and-demand environment and the petroleum market, the Company has been working toward stably securing

crude oil and petroleum products and procurement at proper costs. Concerning **production**, the Company launched the Third Consolidated Medium-Term Safety Plan, set the group-wide safety objective “Individual awareness of roles and responsibilities and creation of safer workplaces through full participation,” and has worked to strengthen the safety management system. Moreover, we strove to further reinforce refinery competitiveness through enhancement of added value and refining cost rationalization by means including the start of commercial operation in October of a set of heavy fuel oil cracking equipment at the Sakai Refinery. In addition, at the Sakai Refinery, manufacturing equipment for bio-ETBE, a bio-gasoline raw material, was completed in January and we have engaged in the production of environment-friendly products. In **logistics**, a further increase in the number of service stations that have introduced the DCD (Driver Controlled Delivery) single discharge system, which aims at reducing the discharge time for tank trucks, significantly contributed to tank truck operating rates. As for **new business**, the Company earnestly engaged in environment-friendly businesses and technology development with the aim of developing the environmental business into a major source of future profits. For instance we have continued to develop the cogeneration (thermometric sales) and wholesale electrical supply (IPP) businesses, and Group company EcoPower Co., Ltd. has engaged in the wind power business nationwide as an effort for renewable energies. We have also carried out demonstration tests of hydrogen stations and demonstration research into GTL (gas to liquids) technology (to convert natural gas to liquid fuels).

In addition, with respect to the “5-aminolevulinic acid (ALA)” business, the Company has actively worked on the manufacture and sale of active ingredients of ALA as well as further expanded domestic sales of the “Penta Garden” series, liquid fertilizer for home gardening, and the Pentakeep® series, liquid fertilizer for business use, both of which contain ALA and promote the growth of plants. Also, in February we began supplying raw material for a home gardening liquid fertilizer containing ALA sold by Earth Chemical Co., Ltd. We will continue to expand sales in Japan and European countries and increase our sales outlets in China and North America, which are promising markets for sales.

In **R&D**, the Company has continued to carry out technical research on the production and business start-up of inexpensive polysilicon, because the widespread use of solar cells is expected to increase the demand for polysilicon as raw material. In addition, we continued two advanced technology R&D projects commissioned by the New Energy and Industrial Technology Development Organization (NEDO). One of which is a research project in collaboration with Toyota Motor Corporation and the National Institute of Advanced Industrial Science and Technology in regard to biomass to liquid (BTL), a technology for producing liquid hydrocarbons equivalent to fuel oils such as kerosene and diesel oil from biomass resources such as wood. The other project involves research to solve technical issues on biomass ethanol manufacturing in collaboration with NIPPON PAPER CHEMICALS CO., LTD., The University of Tokyo, and Kyushu University.

As for **environmental issues**, to contribute to the realization of a sustainable society under the themes “restoration and preservation of the environment in Japan and overseas” and “education of the next generation,” we have conducted the “Living with Our Planet” project for environmental contribution activities using donations received from members of “Cosmo The Card Eco,” which has met with widespread acceptance amid increased desire to participate in environmental preservation activities, and a portion of the Group’s sales. In June we engaged in Cosmo Forest community forest preservation activities as the first project based on the Higashiyoshino-mura Afforestation Project Implementation Guidelines at a village forest of Higashiyoshino-mura, Nara Prefecture, a friendship city of Sakai-shi, Osaka Prefecture. In addition, as for soil pollution measures at service stations and refineries, etc., the Company has continued the planned soil research activities and relevant measures it has been implementing from the viewpoint of attempting to prevent leakage before the fact and minimizing the impact on the environment should such leakage occur.

Despite the abovementioned efforts, the Company’s combined sales volume for all oil types was ¥38,824 thousand kiloliters, down 2.1% from the previous year. Net sales in the petroleum business were ¥2,728.8 billion, up 5.4% from the previous year, and segment income (ordinary income) was ¥58.4 billion.

### **Fire Accident at the Chiba Refinery**

We offer our sincere apologies for the great inconvenience and unease caused to area residents and other parties affected by the fire that broke out near an LPG tank at the Chiba Refinery due to the Great East Japan Earthquake of March 11 (extinguished on March 21). Following a thorough investigation of the accident conducted by the Accident Investigation Committee, we will take every possible measure to prevent a recurrence and work to recover public trust. To ensure supply of petroleum products to the areas affected by the Great East Japan Earthquake and other areas in Japan, we stepped up product imports, cancelled product exports and allocated products scheduled for export to domestic supply, and increased crude oil refining capacity at the Yokkaichi Refinery and Sakaide Refinery (a total increase of 80,000

barrels/day). We will implement measures to safely restore operation of refining plants at the Chiba Refinery at an early date.

### Petrochemical Business

In **petrochemicals**, the paraxylene equipment (production capacity of 380,000 tons a year) at HC Petrochem Co., Ltd. (HCP), a joint venture with Hyundai Oilbank Co., Ltd. (HDO) of South Korea, continued to produce steadily. We will continue to cope with future increases in demand for petrochemical products in the Asia Pacific region. Net sales in the petrochemicals business were ¥45.9 billion, down 11.3% from the previous year, and segment loss (ordinary loss) was ¥0.3 billion.

### Oil Exploration and Production Business

In the current consolidated fiscal year, in February Abu Dhabi Oil Co., Ltd. (Japan) (“ADOC”), a subsidiary of the Company, entered into a new concession agreement with the Supreme Petroleum Council (SPC) of Abu Dhabi for renewal of the concessions for three oil fields that ADOC operates in the Emirate of Abu Dhabi (Mubarraz Field, Umm Al Anbar Field and Neewat Al Ghalan Field) and the acquisition of an additional concession area (Hail Field) for a period of 30 years beginning December 6, 2012. ADOC will continue its operations in the three oil fields it currently operates for 30 years and expects production at Hail Field, which is located adjacent to ADOC’s existing operating fields and includes undeveloped reservoirs, on a similar scale to the current production rate of the three existing oil fields. The Company continued its exploration and development operations in Qatar, which, along with the Emirate of Abu Dhabi, is regarded as a core area, while Australia is seen as a sub-core area. In addition, ADOC, UNITED PETROLEUM DEVELOPMENT CO., LTD. and QATAR PETROLEUM DEVELOPMENT CO., LTD. continued stable production of crude oil in the Middle East, and as a result, the Company’s production was approximately 24 thousand barrels per day in countries where Cosmo Oil holds rights, which makes up approximately 5.4% of the amount of imports of crude oil for the Company. As a result of the above efforts, net sales in the oil exploration and production business were ¥69.9 billion, up 17.4% from the previous year, and segment income (ordinary income) was ¥34.7 billion.

Furthermore, Laffan Refinery in Qatar, in which the Company has invested 10%, continued to produce steadily. The Company intends to further reinforce the relationship with Qatar through this refining business. We will continue to develop the Qatari business in a wide variety of areas, including natural gas development and the petrochemical business.

### Other

In such operations as the buying, selling and leasing of real estate facilities, the construction and leasing of petroleum-related facilities, and insurance, the Company has worked to improve profitability through rationalization and efficiency improvements. Net sales in other businesses were ¥68.7 billion, down 22.4% from the previous year, and segment income (ordinary income) was ¥2.7 billion.

As a result of such management activities, during the current consolidated fiscal year, our consolidated **net sales** increased by 6.1% from the previous year to ¥2,771.5 billion, while **operating income** and **ordinary income** were ¥104.1 billion and ¥96.1 billion, respectively. **Net income for the period** totaled ¥28.9 billion.

### Business Segment Information

	(Millions of yen)					
	Petroleum Business	Petrochemical Business	Oil Exploration and Production Business	Other	Adjustments	Consolidated
Net Sales	2,728,754	45,940	69,938	68,652	-141,762	2,771,523
Segment Income	58,388	-329	34,657	2,656	721	96,094

## (2) Issues to be Addressed

With regard to **the economic environment going forward**, whereas previously gradual recovery of the Japanese economy was expected, uncertainty about the future is likely to continue due to the inestimable economic impact of the Great East Japan Earthquake. In the petroleum industry, the disaster is likely to lead to renewed recognition of the importance of oil as a primary energy source in Japan, and the Group will redouble its efforts to discharge its responsibility, including a stable supply of petroleum products, as an energy provider. Overseas, demand in China, India, and elsewhere will continue to increase, demand for petroleum products and petrochemical products is predicted to expand, and globally-oriented, strategic and flexible management adapted to changes in the business environment will be required.

**The Cosmo Oil Group** will make every effort to rapidly restore operation at the Chiba Refinery and ensure product supply in Japan in light of the impact of the Great East Japan Earthquake. From a medium-term to long-term perspective, the Group will continue to make a concerted effort in FY2011 to achieve the objectives in the Fourth Stage Consolidated Medium-Term Management Plan (FY2010 to FY2012) by implementing the measures described below.

### **Fourth Stage Consolidated Medium-Term Management Plan (FY2010 to FY2012)**

#### **1) Achievement of Recovery of Profits in Petroleum Refining and Marketing Business**

##### *Drastic "Rationalization" and Company-wide "Change"*

Drastic rationalization and company-wide change will be carried out to develop a stable-profit structure in the petroleum refining and marketing business, which is the core business of the Cosmo Oil Group.

First of all, as a measure to improve the sales mix of oil types, we will seek cost reduction as the full-scale operation of a production line of the heavy fuel oil cracking equipment at the Sakai Refinery will allow us to procure inexpensive heavy crude oil. Our profitability will be improved as well through the changeover of production higher-value-added naphtha, jet fuel and diesel oil. Moreover, we will establish a low cost system by reducing fixed selling expenses and drastically streamlining the organization and personnel and continue export sales of petroleum products with a view to developing overseas markets.

#### **2) Expansion of Business Portfolio by Petrochemical and Oil Exploration and Production**

##### *Medium- and Long-Term Growth Strategy*

In the petrochemical and oil exploration and production businesses, we will expand our business scale by implementing a medium- and long-term growth strategy. In petrochemical business, after scheduled completion of new paraxylene equipment (production capacity of 800,000 tons a year) at HCP in 2013, a selling system of 1.18 million tons per year for paraxylene will be established. In response to this, new mix xylene distillation equipment (production capacity of 300,000 tons a year) is expected to be completed in November 2011 within the Company's Yokkaichi Refinery. This production, together with that produced by the Company's existing mix xylene equipment (production capacity of 300,000 tons a year), will enable the stable supply to HCP of mix xylene. This will make it possible to expand and stabilize profitability based on an integrated operation system of refining and petrochemicals ranging from crude oil to paraxylene and will improve the supply-demand balance of its gasoline fraction. Next, in the oil exploration and production business, we will continue the stable operations of the existing oilfields where the Cosmo Oil Group's petroleum development companies produce oil. We will also continue the exploration development activities in Qatar and Australia. In addition, since the new concession area in the Emirate of Abu Dhabi acquired in the new concession agreement concluded in February will enable maximum utilization of existing production facilities owned by ADOC, environment-friendly, highly economical exploration and production is anticipated. The Company will continue to strive to expand crude oil production based on long-established relationships of trust with oil-producing countries. Furthermore, we will accelerate moves to ensure the early implementation of new non-oil businesses in order to establish a business base that will become a major source of future profits. In the wind power business, we will aim to earn stable profits by strengthening the maintenance system. In the "ALA business," we will seek to increase the profit contribution by accelerating commercialization and boosting sales capabilities.

#### **3) Continuation and Promotion of CSR Management and Environmental Management**

As its approach to CSR management and environmental management, the Cosmo Oil Group will involve all Group employees to accelerate efforts for the realization of a sustainable society and global environment based on "honest and transparent management" with the following focal points: improvement in the function of the CSR promotion system, reinforcement of safety management, enhancement of human rights and personnel measures, promotion of

environmental measures, and facilitation of communication activities that meet the expectations of society in accordance with the Third Stage Consolidated Medium-Term CSR Plan (FY2010 to FY2012).

Based on Group management concepts grounded in CSR, the Cosmo Oil Group will contribute to the sustainable development of society while working towards “Harmony and Symbiosis” of energy, society and the global environment through the stable supply of safe and convenient energy, the thoroughgoing implementation of management with an emphasis on compliance, and social contribution activities and global environmental preservation activities. In addition, we have resolved to develop a general energy corporate group that aims to “Create Future Values” and further contribute to the continued development of society by utilizing the Group’s management resources and bringing together its wisdom to develop and provide new products, technologies, and services that meet the needs of customers and society.

We look forward to the continued support and guidance of our shareholders.

### (3) Production and Order Acceptance

#### 1) Consolidated Production and Order Acceptance

Name of Business Segment		Production Volume	Changes from FY2009
		Millions of yen	%
Petroleum Business	Gasoline/Naphtha	399,201	15.0
	Kerosene/Diesel Fuel	532,525	5.5
	Heavy Fuel Oil	253,044	6.0
	Other	80,879	3.5
	Subtotal	1,265,651	8.3
Petrochemical Business		19,680	-8.1
Oil Exploration and Production Business		19,569	26.7
Total		1,304,901	8.2

(Notes) 1. Domestic fuel not included.

2. Production volume includes portions consigned to other companies and excludes portions consigned from other companies.

3. Amount above does not include consumption taxes.

4. Amount above does not include production volume between segments.

Name of Business Segment	Amount of Orders	Changes from FY2009	Outstanding Orders	Changes from FY2009
	Millions of yen	%	Millions of yen	%
Other	8,604	-33.0	2,295	-70.3

(Note) Amount above does not include consumption taxes.

#### 2) Non-consolidated Production and Order Acceptance

Oil Type	FY2010	FY2009	Changes from FY2009
	Thousand kl/t	Thousand kl/t	%
Gasoline/Naphtha	7,409	7,684	-3.6
Kerosene/Diesel Fuel	9,848	9,841	0.1
Heavy Fuel Oil	5,210	5,804	-10.2
Other	2,115	2,087	1.3
Total	24,583	25,419	-3.3

(Notes) 1. Production volume includes portions consigned to other companies and excludes portions consigned from other companies.

2. In addition to the above-mentioned production, domestic purchase (current term 8,971 thousand kiloliters, previous term 9,477 thousand kiloliters) and overseas purchase (current term 6,080 thousand kiloliters, previous term 4,948 thousand kiloliters)

#### (4) Sales

##### 1) Consolidated Sales

Name of Business Segment	Sales Volume	Changes from FY2009	
	Millions of yen	%	
Petroleum Business	Gasoline/Naphtha	1,290,327	0.5
	Kerosene/Diesel Fuel	810,866	16.0
	Heavy Fuel Oil	332,104	2.3
	Other	255,119	8.3
	Subtotal	2,688,417	5.7
Petrochemical Business	19,495	-11.5	
Oil Exploration and Production Business	35,012	37.7	
Other	28,598	30.1	
Total	2,771,523	6.1	

(Notes) 1. Gasoline tax and local gasoline tax are included in amount of gasoline.

2. Amount above does not include consumption taxes.

3. Amount above does not include volume of sales between segments.

##### 2) Non-consolidated Sales

Type of Oil	FY2010	FY2009	Changes from FY2009
	Thousand kl/t	Thousand kl/t	%
Gasoline/Naphtha	16,140	16,784	-3.8
Kerosene/Diesel Fuel	13,824	13,304	3.9
Heavy Fuel Oil	6,506	7,140	-8.9
Other	2,352	2,427	-3.1
Total	38,824	39,656	-2.1

#### (5) Capital Expenditures of the Group

The Group spent a total of ¥64.4 billion on capital investments during the consolidated fiscal year, primarily in the following:

Primary Facilities Completed during the Current Consolidated Fiscal Year

- Cosmo Oil

Sakai Refinery: Investment for upgrading refineries (petroleum business)

Nationwide: New establishment and remodeling of service stations (petroleum business)

- Subsidiaries

Qatar: Qatar Petroleum Development Co., Ltd.

Qatar: Recoverable accounts under production sharing

- Subsidiaries

Abu Dhabi: Abu Dhabi Oil Co., Ltd.

Abu Dhabi (United Arab Emirates): Production facilities (oil exploration and production business)

#### (6) Financing Activities

The Company conducted financing activities during the current consolidated fiscal year as follows:

Issue	Issue Date	Total Issue Amount	Interest Rate	Maturity Date
21th Series Unsecured Bond	September 21, 2010	¥22.0 billion	1.09% annually	September 18, 2015
22th Series Unsecured Bond	December 9, 2010	¥10.0 billion	0.91% annually	December 9, 2014
23th Series Unsecured Bond	December 9, 2010	¥10.0 billion	1.44% annually	December 9, 2016

#### (7) Acquisition or Disposition of Shares or Other Equities or Stock Acquisition Rights, etc. of Other Companies

Not applicable.

**(8) Assets, Profit and Loss for Recent Four Fiscal Years**

## 1) Consolidated Assets, Profit and Loss

(Billions of yen)

	The 102nd Term FY2007	The 103rd Term FY2008	The 104th Term FY2009	The 105th Term (Current Term) FY2010
Net Sales	3,523.1	3,428.2	2,612.1	2,771.5
Ordinary Income	94.3	-125.0	36.4	96.1
Net Income	35.2	-92.4	-10.7	28.9
Net Income per Share (yen)	46.72	-109.11	-12.68	34.16
Total Assets	1,627.9	1,440.4	1,645.0	1,579.4
Net Assets	469.7	347.4	331.6	350.2

(Notes) 1. Net income per share is calculated on the basis of the average number of shares outstanding during the term (excluding the average number of treasury shares held during the term).

2. Please refer to "Section 1. Business Overview, (1) Review of Operations of the Group" for the operating results for the 105th Term.

## 2) Non-consolidated Assets, Profit and Loss

(Billions of yen)

	The 102nd Term FY2007	The 103rd Term FY2008	The 104th Term FY2009	The 105th Term (Current Term) FY2010
Net Sales	3,301.6	3,158.9	2,332.7	2,551.3
Ordinary Income	26.4	-127.5	23.3	50.5
Net Income	13.2	-55.3	9.6	20.8
Net Income per Share (yen)	17.50	-65.23	11.38	24.49
Total Assets	1,450.9	1,282.8	1,520.2	1,437.6
Net Assets	338.1	257.6	263.8	276.8

(Note) Net income per share is calculated on the basis of average number of shares issued during the term (excluding the average number of treasury shares held during the term).

**(9) Principal Business Lines** (as of March 31, 2011)

The principal business of the Group are the Petroleum Business, including imports and exports, refining, storage, and sales of crude oil and petroleum products, the Petrochemical Business, including manufacturing and sales of petrochemical products, and the Oil Exploration and Production Business including exploration and production of crude oil, etc. In other businesses, the Group is engaged in oil-related facilities construction and insurance agency business, etc.

**(10) Principal Offices and Plants** (as of March 31, 2011)

## 1) The Company

Head Office	1-1-1, Shibaura, Minato-ku, Tokyo
Branches	Sapporo/Sendai/Tokyo/ Kanto- Minami (Tokyo)/Nagoya/Osaka/Hiroshima/Takamatsu/Fukuoka
Refineries	Chiba (Ichihara-shi)/Yokkaichi/Sakai/Sakaide
Laboratories	Research & Development Center (Satte-shi Saitama Pre.)
Overseas Bases	Abu Dhabi (United Arab Emirates) /Doha (Qatar)/Beijing (China)/Shanghai (China)

## (Reference)

## Facilities scale of the Company

Crude oil processing capacity	635 thousand barrels per day
Number of oil storage depots (including 33 bailed oil storage depots)	35
Number of affiliated service stations	3,645

## 2) Major Subsidiaries and Affiliates

COSMO MATSUYAMA OIL CO., LTD.	(Head Office) (Plant)	Minato-ku, Tokyo Matsuyama-shi, Ehime Pref.
COSMO PETROLEUM GAS CO., LTD.	(Head Office)	Minato-ku, Tokyo
COSMO OIL LUBRICANTS CO., LTD	(Head Office) (Plant)	Minato-ku, Tokyo Chiba (Ichihara-shi) / Yokkaichi-shi / Shimotsu (Kainan-shi, Wakayama Pre.) / Osaka
COSMO OIL (U.K.) PLC.	(Head Office)	London (Britain)
COSMO OIL SALES CO., LTD.	(Head Office)	Shinagawa-ku, Tokyo
YOKKAICHI LPG TERMINAL CO., LTD.	(Head Office)	Minato-ku, Tokyo
QATAR PETROLEUM DEVELOPMENT CO., LTD.	(Head Office) (Mining Plant)	Shinagawa-ku, Tokyo Doha (Qatar)
ABU DHABI OIL CO., LTD.	(Head Office) (Mining Plant)	Shinagawa-ku, Tokyo Abu Dhabi (United Arab Emirates)
COSMO ENGINEERING CO., LTD.	(Head Office)	Shinagawa-ku, Tokyo
MARUZEN PETROCHEMICAL CO., LTD.	(Head Office) (Plant)	Chuo-ku, Tokyo Chiba (Ichihara-shi) / Yokkaichi-shi
UNITED PETROLEUM DEVELOPMENT CO., LTD.	(Head Office) (Branch)	Minato-ku, Tokyo Abu Dhabi (United Arab Emirates) / Doha (Qatar)



**(11) Major Subsidiaries and Affiliates** (as of March 31, 2011)

## 1) Major Subsidiaries and Affiliates

Company Name	Paid-in Capital	Investment Ratio	Main Operations
(Subsidiaries)	100 million yen	%	
COSMO MATSUYAMA OIL CO., LTD.	35	100.0	Manufacture and sales of petrochemical products/ Storage, receiving and shipping works of petroleum / Lease of oil storage facilities
COSMO PETROLEUM GAS CO., LTD.	35	100.0	Import, storage and sales of LPG
COSMO OIL LUBRICANTS CO., LTD.	16	100.0	Research and development, manufacture, and sales of lubrication oils and grease / analysis and test of petroleum
COSMO OIL (U.K.) PLC.	U.S. \$4 million	100.0	Purchase and sales of crude oil and finished products
COSMO OIL SALES CO., LTD.	1	100.0	Sales of oil products
YOKKAICHI LPG TERMINAL CO., LTD.	16	55.0	Storage and shipment of LPG
QATAR PETROLEUM DEVELOPMENT CO., LTD.	31	75.0	Crude oil development/production/sales
ABU DHABI OIL CO., LTD.	101	63.0	Crude oil development/production/sales
COSMO ENGINEERING CO., LTD.	4	87.6	Design, procurement and construction of oil exploration unit, other units or facilities
(Affiliates)			
MARUZEN PETROCHEMICAL CO., LTD.	100	40.0	Manufacture and sales of petrochemical products
UNITED PETROLEUM DEVELOPMENT CO., LTD.	20	45.0	Crude oil development/production/sales

(Note) The Company's investment ratio includes a portion of indirect holding via subsidiaries.

## 2) Review and Results of Business Combination

## (Review of Business Combination)

- i) As a result of a transfer of shares of QATAR PETROLEUM DEVELOPMENT CO., LTD., the Company's investment ratio decreased from 85.8% to 75.0%.
- ii) The Cosmo Oil Group consists of 37 consolidated subsidiaries (unchanged) and 28 companies under the equity method (a decrease of one company from the previous term) including the major subsidiaries and affiliates as listed in 1) above.

## (Results of Business Combination)

Consolidated net sales for the current consolidated fiscal year reached to ¥2,771.5 billion, and consolidated net income for the period was ¥28.9 billion.

## 3) Status of Other Significant Business Combinations

The Company and International Petroleum Investment Company (IPIC) performed a comprehensive and strategic business alliance and Infinity Alliance Limited, a wholly owned subsidiary of the relevant company, invests in the Company.

**(12) Employees** (as of March 31, 2011)

## 1) Employees of Cosmo Oil Group

Name of Business Segment	Number of Employees (Persons)		Year-on-year Change (Persons)
Petroleum Business	5,163	(2,728)	5 (decreased)
Petrochemical Business	160	(0)	4 (increased)
Oil Exploration and Production Business	201	(58)	7 (increased)
Other	842	(12)	58 (decreased)
Total	6,366	(2,798)	52 (decreased)

(Notes) 1. Number of employees indicates the number of employees in operation.

2. Number in parenthesis in the number of employees column indicates the average employment number of temporary employees.

## 2) Employees of the Company

Number of Employees (Persons)	Year-on-year Change (Persons)	Average Length of Service
2,135	45 (decreased)	20 years and 5 months

(Note) Seconded employees (1,133), temporary employees and part-timers are not included in the number of employees.

**(13) Principal Lenders** (as of March 31, 2011)

(Billions of yen)

Lenders	Borrowed Amount
Mizuho Corporate Bank, Ltd.	129.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	103.0
Sumitomo Mitsui Banking Corporation	64.2
Japan Oil, Gas and Metals National Corporation	57.3
The Chuo Mitsui Trust and Banking Company, Limited	25.9

(Note) In addition to the above, there were borrowings via syndicated loans (¥138.2 billion in total).

**(14) Other Significant Matters concerning Current Status of the Group**

Concerning the matter in which the Company and other companies are claimed to have violated the Antimonopoly Act with respect to bidding relating to the delivery of petroleum products to the Defense Agency, during the current term, there were three trial dates for the Lawsuit on the Claim for the Refund of Unfair Profits pending in the Tokyo District Court, and the lawsuit is pending. Concerning the Lawsuit on the Claim for Cancellation of Decision by the Fair Trade Commission (FTC) filed by the Company, although the Company made a final appeal and filed a petition for acceptance of the final appeal with the Tokyo High Court, on November 25, 2010 a decision not to accept the final appeal or petition for acceptance of the final appeal was handed down, the appeal was concluded, and the Company implemented the cease and desist measures ordered in the decision. Concerning the case involving the adjudication on surcharges by the FTC, in which a decision to impose the surcharge on the Company was handed down in February, the Company decided not to file a lawsuit seeking cancellation of the decision and in April of this year paid surcharges in the amount of ¥1,751.15 million.

In regard to the Claim for Damage Compensation filed by the Company against the contractor who undertook the inspection construction for Keiyo Sea Berth sea bottom underground crude oil piping at the Chiba Refinery of the Company, where part of the piping floated to the surface of the sea, there were five trial dates in the Tokyo District Court during the current term, and this case is currently on trial.

**2. Share-related Information** (as of March 31, 2011)

<b>(1) Number of Shares Authorized to be Issued:</b>	1,700,000,000 shares
<b>(2) Number of Shares Issued and Outstanding:</b>	847,705,087 shares
(number of treasury shares of above:	279,813 shares)
<b>(3) Number of Shareholders:</b>	39,878
<b>(4) Major Shareholders</b>	

Name of Shareholders	Number of Shares Held (in thousands)	Investment Ratio (%)
Infinity Alliance Limited	176,000	20.76
Japan Trustee Services Bank, Ltd. (Trust Account)	56,808	6.70
Mizuho Corporate Bank, Ltd.	31,320	3.69
The Master Trust Bank of Japan, Ltd. (Trust Account)	20,126	2.37
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	19,750	2.33
Mitsui Sumitomo Insurance Company, Limited	18,878	2.22
The Kansai Electric Power Co., Inc.	18,600	2.19
Aioi Nissay Dowa Insurance Co., Ltd.	18,583	2.19
Tokio Marine & Nichido Fire Insurance Co., Ltd.	17,335	2.04
Sompo Japan Insurance Inc.	15,792	1.86

(Note) Investment ratio is excluding the number of treasury shares.

### 3. Executives of the Company

#### (1) Directors and Auditors (as of March 31, 2011)

Position	Name	Responsibilities
Chairman, Representative Director	Keiichiro Okabe	
President, Representative Director Chief Executive Officer	Yaichi Kimura	
Representative Director, Executive Vice President	Keizo Morikawa	Assistant to President. Responsible for Change Promotion Dept., and Personnel Dept.
Representative Director, Senior Managing Executive Officer	Kenji Hosaka	Responsible for Corporate Planning Dept., Petroleum E&P Dept...
Director, Senior Executive Officer	Naomasa Kondo	Responsible for Refining & Technology Dept., Maintenance & Engineering Dept., and Safety & Environment Control Dept.
Director, Senior Executive Officer	Satoshi Miyamoto	Responsible for Accounting Dept., Finance Dept., Distribution Dept., and Project Development Dept.
Director, Senior Executive Officer	Hideto Matsumura	Responsible for Corporate Communication Dept., R&D Dept., and Purchasing Center
Director, Senior Executive Officer	Atsuto Tamura	Responsible for General Affairs Dept., Affiliate Relations Dept., and Information System Planning Dept.
Director	Mohamed Al Hamli	
Director	Nasser Alsowaidi	
Corporate Auditor	Makoto Suzuki	
Corporate Auditor	Hirokazu Ando	
Corporate Auditor	Hideo Suzuki	
Auditor	Hajime Miyamoto	
Auditor	Yoshitsugu Kondo	

- (Notes)
1. Directors Mohamed Al Hamli and Nasser Alsowaidi are Outside Directors.
  2. Corporate Auditor Hirokazu Ando, Auditors Hajime Miyamoto and Yoshitsugu Kondo are Outside Auditors.
  3. Corporate Auditor Hirokazu Ando, Auditors Hajime Miyamoto and Yoshitsugu Kondo are Independent Directors/Auditors under the rules of the Tokyo Stock Exchange, Osaka Securities Exchange and Nagoya Stock Exchange. Each of the stock exchanges was notified of the names of these Independent Directors/Auditors.
  4. Mohamed Al Hamli and Nasser Alsowaidi were newly elected as Director and assumed the positions on June 23, 2010.
  5. Khalifa Al Romaihi and Jeffrey Kirk retired as Director at the expiration of their term on June 23, 2010.
  6. Hideo Suzuki was newly elected as Corporate Auditor and assumed the position on June 23, 2010.
  7. Yutaka Shimizu resigned as Corporate Auditor on June 23, 2010.

## 8. Executive Officers

Position	Name	Responsibility
Senior Executive Officer	Kanesada Sufu	General Manager, Project Development Dept.
Senior Executive Officer	Hisashi Kobayashi	Responsible for Sales Dept., Wholesales Marketing Dept., Industrial Fuel Marketing Dept., and Demand & Supply Coordination Dept.
Senior Executive Officer	Hirohiko Ogiwara	General Manager, Tokyo Branch Office
Senior Executive Officer	Satoshi Nishi	General Manager, Accounting Dept.
Senior Executive Officer	Isao Kusakabe	Responsible for International Ventures Dept., Crude Oil & Tanker Dept., and Petroleum Products Trading Dept.
Senior Executive Officer	Hideo Matsushita	General Manager, Petroleum E& P Dept. and Assistant in Charge of Petroleum E & P Dept.
Senior Executive Officer	Hiroaki Fujioka	General Manager, Sakai Refinery
Executive Officer	Toshiaki Iwana	General Manager, Chiba Refinery
Executive Officer	Katsuhisa Ohtaki	General Manager, Yokkaichi Refinery
Executive Officer	Teruyuki Takishima	General Manager, Maintenance & Engineering Dept.
Executive Officer	Hiroshi Kiriya	General Manager, Corporate Planning Dept. and General Manager, Change Promotion Dept.
Executive Officer	Muneyuki Sano	General Manager, Industrial Fuel Marketing Dept.
Executive Officer	Masayoshi Ishino	General Manager, Crude Oil & Tanker Dept.
Executive Officer	Takashi Shono	General Manager, Sakaide Refinery
Executive Officer	Yasushi Ohe	General Manager, Demand & Supply Coordination Dept.
Executive Officer	Katsuyuki Ihara	General Manager, Refining & Technology Dept.
Executive Officer	Shigenori Nakano	General Manager, Distribution Dept.
Executive Officer	Yoshimitsu Watanabe	General Manager, Information System Planning Dept.

## (2) Amount of Compensation to Directors and Auditors

Category	Number of Persons Remunerated	Amount of Compensation
Directors (Outside Directors of Above)	12 (4)	Thousands of yen 318,360 (22,440)
Auditors (Outside Auditors of Above)	6 (3)	92,280 (43,560)
Total	18	410,640

- (Notes) 1. The amounts include the compensation for the three individuals who retired from two Directors (including two Outside Directors) and one Auditor at the conclusion of the 104th Ordinary General Meeting of Shareholders held on June 23, 2010.
2. The amount of compensation to Directors does not include the salary for employees for those who also work as Directors
3. The amount of compensation to Directors was set by resolution at up to ¥750 million per year (the salary for employees for those who also work as Directors is not included) at the 101st Ordinary General Meeting of Shareholders held on June 28, 2007.
4. The amount of compensation to Auditors was set by resolution at up to ¥9 million per month at the 89th Ordinary General Meeting of Shareholders held on June 29, 1995.

## (3) Significant Concurrent Service Status of Directors and Auditors

Name	Corporate Name	Title
Keiichiro Okabe	TOKYO BROADCASTING SYSTEM HOLDINGS, INC. TOKYO BROADCASTING SYSTEM TELEVISION, INC. QATAR PETROLEUM DEVELOPMENT CO., LTD. COSMO PETROLEUM GAS CO., LTD. COSMO OIL SALES CO., LTD.	Outside Auditor Outside Auditor President Director Director

	ABU DHABI OIL CO., LTD. COSMO ENGINEERING CO., LTD.	Director Director
Yaichi Kimura	UNITED PETROLEUM DEVELOPMENT CO., LTD. MARUZEN PETROCHEMICAL CO., LTD.	Director Director
Kenji Hosaka	QATAR PETROLEUM DEVELOPMENT CO., LTD. ABU DHABI OIL CO., LTD. MARUZEN PETROCHEMICAL CO., LTD. UNITED PETROLEUM DEVELOPMENT CO., LTD.	Director Director Director Director (assumed in June)
Naomasa Kondo	COSMO ENGINEERING CO., LTD. COSMO MATSUYAMA OIL CO., LTD.	Director Director
Atsuto Tamura	COSMO PETROLEUM GAS CO., LTD.	Director
Mohamed Al Hamli (Outside Director)	The United Arab Emirates International Petroleum Investment Company (UAE)	Minister of Energy Deputy Chairman
Nasser Alsowaidi (Outside Director)	Abu Dhabi Department of Economic Development (DED) (UAE) International Petroleum Investment Company (UAE)	Chairman Director
Makoto Suzuki	COSMO PETROLEUM GAS CO., LTD. COSMO ENGINEERING CO., LTD.	Corporate Auditor Corporate Auditor
Hirokazu Ando (Outside Auditor)	COSMO OIL LUBRICANTS CO., LTD. QATAR PETROLEUM DEVELOPMENT CO., LTD.	Corporate Auditor Corporate Auditor
Hideo Suzuki	COSMO MATSUYAMA OIL CO., LTD.  COSMO OIL SALES CO., LTD.  ABU DHABI OIL CO., LTD.  UNITED PETROLEUM DEVELOPMENT CO., LTD.	Corporate Auditor (assumed in June) Corporate Auditor (assumed in June) Outside Auditor (assumed in June) Corporate Auditor (assumed in June)
Hajime Miyamoto (Outside Auditor)	Kansai International Airport Co., Inc.	Corporate Adviser
Yoshitsugu Kondo (Outside Auditor)	Sano Kondo Law Offices	Attorney at law

- (Notes) 1. Keiichiro Okabe also serves as Representative Director of the Company's subsidiary Qatar Petroleum Development Co., Ltd., and the Company and the relevant company are in transaction relationships for such as the sale and purchase of crude oil, etc.
2. Yoshitsugu Kondo serves as joint-representative of Sano Kondo Law Offices and the Company has executed a Legal Retainer Agreement with the Firm.

#### (4) Outside Directors and Outside Auditors

##### 1) Major Activities in the Fiscal Year

-Attendance at Board of Directors Meetings and Board of Auditors Meetings, and status of expression of opinions

Name	Record of Attendance		Status of Expression of Opinions
	Board of Directors Meeting	Board of Auditors Meeting	
Mohamed Al Hamli (Outside Director)	12 out of 12 times	-	Expresses opinions as needed from the international viewpoint relevant to petroleum industry
Nasser Alsowaidi (Outside Director)	10 out of 12 times	-	Expresses opinions as needed from the international viewpoint relevant to petroleum industry
Hirokazu Ando (Outside Auditor)	15 out of 15 times	14 out of 14 times	Makes efforts to understand the management in general as Corporate Auditor and expresses opinions as needed
Hajime Miyamoto (Outside Auditor)	14 out of 15 times	14 out of 14 times	Has abundant experience and knowledge concerning corporate management and expresses opinions as needed
Yoshitsugu Kondo (Outside Auditor)	15 out of 15 times	14 out of 14 times	Mainly expresses opinions as needed from specialist viewpoint as lawyer

##### 2) Outline of the Terms and Conditions of Agreements for Limitation of Liability

Pursuant to the provisions of Article 427, Paragraph 1 of the Corporate Law, the Company has entered into agreements with all of the Outside Directors and with two Outside Auditors, Hajime Miyamoto and Yoshitsugu Kondo, to limit the liability for damages under Paragraph 1, Article 423 of the said law.

The limitation of the liability for damages under the relevant agreement is the minimum liability amount set forth in Article 425, Paragraph 1 of the Corporate Law.

#### 4. Accounting Auditor

##### (1) Name of Accounting Auditor

KPMG AZS ALLC

##### (2) Amount of Compensation, etc., pertaining to the Current Fiscal Year to Accounting Auditor

(Thousands of Yen)

	Amount of Compensation
Amount of Compensation to be Paid to the Accounting Auditor	83,557
Amount of Moneys and Other Property Benefits to be Paid to the Accounting Auditor by the Company and Its Subsidiaries	166,128

- (Notes) 1. The audit agreement entered into by the Company and the Accounting Auditor does not clearly distinguish the amount derived from an audit under the Corporate Law and that which is from the audit under the Financial Instruments and Exchange Law, and those cannot be substantially distinguished from each other, either, and therefore, the aforementioned amount of compensation to be paid to the Accounting Auditor pertaining to the current fiscal year indicates the total amount of these.
2. Our subsidiaries Cosmo Oil (U.K.) PLC., Cosmo Oil International Pte., Ltd., Cosmo Oil of U.S.A. Inc., Cosmo Oil (Shanghai) Co., Ltd. and EcoPower Co., Ltd. undergo audits by audit corporations other than the Account Auditor of the Company.

##### (3) Contents of Non-audit Business

The Company requested the Accounting Auditor to prepare a comfort letter related to the issuance of bonds and paid the Accounting Auditor compensation for the service.

##### (4) Guidelines for Decisions on Dismissal or Non-renewal of Accounting Auditor

If the Company judges that any of the respective items of Paragraph 1, Article 340 of the Corporate Law is applicable to the Accounting Auditor, such as violation of duty-related obligations or neglect of duties, or fraudulent conduct not

appropriate as Accounting Auditor, the Board of Corporate Auditors will decide on dismissal of the Accounting Auditor. In addition, in any case if it is judged that hiring it as the Accounting Auditor gives material disturbance on the Company, the Board of Corporate Auditors will submit a proposal to the General Meeting of Shareholders with regard to dismissal or non-renewal of the Accounting Auditor.

## **5. Systems to Ensure Conformance of Execution of Duties by Directors to Laws, Ordinances and Articles of Incorporation and Systems to Ensure Appropriateness of Other Operations**

In order to put into practice the management concepts and corporate action policies of the Cosmo Oil Group, and to execute duties appropriately and efficiently, the Company determined the following basic policies with respect to preparation of a system for job performance of Directors and employees, system for risk management and internal auditing to support the above, and a system to ensure effective auditing by Auditors.

1) System to Ensure Conformance of Execution of Duties by Directors and Employees to Laws, Ordinances and Articles of Incorporation (Corporate Law Article 362, Paragraph 4, Item 6, Enforcement Regulations Article 100, Paragraph 1, Item 4).

<Management Concepts and Corporate Action Policy>

- The Company will formulate Cosmo Oil Group Management Vision, and determine Corporate Action Policy with respect to corporate ethics (Cosmo Oil Group Companies Action Policy), and prepare a promotional system for building up the corporate ethics of the Cosmo Oil Group, and under which the Directors and employees can put these ethics into practice, including establishment of the CSR Promotion Board (chaired by the President) as an organization to administrate CSR activities and internal controls overall.
- The CSR Promotion Committee will prepare manuals on corporate ethics, and carry out training, etc., thus working toward thoroughgoing compliance and fostering and improvement of ethical viewpoints.

<Report at Meetings>

- The Company will establish the Board of Directors Meeting Rules and Management Execution Board Rules, and prepare a system under which reports on the status of job performance for each Director are made in Meetings.

<Separation of Duty Execution and Supervision >

- The Company will introduce an Executive Officer System, for separation of job performance and supervision, and for enhancement of the supervisory function of the Board of Directors.

<Operations Rules>

- The Company will establish the operational rules in which are prescribed the organization, posts, command and control system, and duty sharing, etc., and decision making authority rules to provide for basic matters with respect to operation of decision-making system, and prepare a system under which job performance will be in compliance with these, and reexamine the rules persistently in response to changes in the management environment.

<Internal Audit Enhancement>

- The Company will prepare the system to ensure effective implementation of internal audits, and implement highly specialized audits from highly ethical viewpoints by the Audit Office.

<Acquisition, Use and Conveyance of Information>

- The Company will establish a corporate ethics consultation window (Help Line) with measures to prevent penalization of whistleblowers such as ensuring whistleblower anonymity, and will also establish a Customer Center, as a window to deal with inquiries, etc. from customers, and prepare a system to acquire and use information widely from inside and outside the Company.
- The Company will determine basic matters with respect to risk management, and prepare systems for swift and accurate conveyance of information to management and timely and proper transmission of information to outside the Company

<IT Handling>

- In order to achieve the above purposes, the Company will deal with the advance of IT properly, and use IT effectively and efficiently.

2) Rules and Other Systems concerning Management of Risk of Loss (Corporate Law Enforcement Regulations Article 100, Paragraph 1, Item 2)

- The Company will determine basic matters with regard to risk management (establishment of Risk Management Rules, Risk Measures Rules, General Disaster Measures Rules, etc.), and establish a Risk Management Committee (chaired by Executives in charge of the General Affairs Department) for smooth and effective promotion of risk management, for assessment and reexamination of management risks, and for taking proper measures.

3) Systems to Ensure Efficient Execution of Duties by Directors (Corporate Law Enforcement Regulations Article 100, Paragraph 1, Item 3)

- The Board of Directors Meetings shall be held once per month in principle in accordance with the Board of Directors



- Rules, and determine matters prescribed in the laws or ordinances, or in the Articles of Incorporation, and management policies and other material matters relevant to management, and also supervise the job performance of directors.
- The Management Execution Board shall be held once a week in principle in accordance with the Management Execution Board Rules, and shall be a decision making organ for job performance, discussing basic policies and material matters relevant to job performance in accordance with management policies determined at Board of Directors Meetings.
  - The Company shall establish the Operational Rules, etc., in which are prescribed the organization, post, command and control system, and duty sharing, etc., and work toward efficient job performance through the establishment of a responsibility system for job performance in accordance with the rules for decision making authority.
  - Targets the Company should achieve shall be clarified upon determination of the management plan based on management policies, and a yearly plan for the overall company, department, office and business office, etc. shall be formulated and management of performance shall be carried out.
- 4) System with regard to Information Retention and Management pertaining to Execution of Duties of Directors (Corporate Law Enforcement Regulations Article 100, Paragraph 1, Item 1)
- In accordance with the internal rules with respect to information management, such as Board of Directors Rules and Information Management Rules, etc., information pertaining to job performance by Directors shall be properly retained and managed.
- 5) System to Ensure Appropriateness of Business in the Company and Cosmo Oil Group (Corporate Law Enforcement Regulations Article 100, Paragraph 1, Item 5)
- The Company will establish the Cosmo Oil Group Management Vision and Corporate Code of Conduct, and other necessary rules, etc. and appoint a corporate ethics promotion manager (president) in each company of the Group, for preparation of a system as a united Group to ensure business appropriateness.
  - The Company will prepare a system concerning internal auditing as a group, such as audit implementation or support of internal auditing of each company by the Audit Office as to job performance status of group companies.
- 6) Matters concerning Employees to Assist the Duties of Auditors in case the Appointment thereof is Requested by Auditors, and Matters concerning Independence of the Relevant Employees from Directors (Corporate Law Enforcement Regulations, Article 100, Paragraph 3, Items 1, 2)
- For enhancement of audit functions, Board of Auditors Secretariat will be established under the Board of Auditors, and employees dedicated to such work will be arranged, and for the personnel transfer and personnel appraisal of these employees, appraisal of personnel for audit assistant employees shall be carried out by Board of Auditors, and in appointing, to ensure the independence of the relevant employees, the consent of the corporate auditors shall be obtained.
- 7) System for Reporting to Auditors by Directors and Employees, and Other Systems for Reporting to Auditors, and Other Systems to Ensure Effectiveness of Audits by Auditors (Corporate Law Enforcement Regulations, Article 100, Paragraph 3, Items 3,4)
- Directors and employees shall report to corporate auditors on statutory matters and (1) material matters that affect the management and results of the Cosmo Oil Group, (2) overview of activities of Audit Office and Auditors and Audit Office of affiliates, (3) overview of activities with respect to internal controls of the Group, and (4) status of operation and whistle blowing at Help Line.
  - Meetings among Auditors, the President, primary departments and office managers, and Auditors of affiliates will be held on regular basis to prepare systems to ensure audit effectiveness.
  - Sufficient collaboration among Auditors, Audit Office and the Accounting Auditor shall be attempted.

## Consolidated Balance Sheet

Fiscal Year 2010 (As of March 31, 2011)

(Unit: million yen)

Item	Amount	Item	Amount
<b>Assets</b>	<b><u>1,579,424</u></b>	<b>Liabilities</b>	<b><u>1,229,185</u></b>
<b>Current assets</b>	<b>793,363</b>	<b>Current liabilities</b>	<b>622,173</b>
Cash and deposits	94,343	Notes and accounts payable-trade	243,914
Notes and accounts receivable-trade	229,618	Short-term loans payable	176,366
Merchandise and finished goods	204,867	Accounts payable-other	80,336
Work in process	985	Accrued volatile oil and other petroleum taxes	71,431
Raw materials and supplies	197,122	Income taxes payable	7,252
Accounts receivable-other	28,405	Accrued consumption taxes	13,222
Deferred tax assets	3,680	Accrued expenses	11,023
Other	34,673	Deferred tax liabilities	567
Allowance for doubtful accounts	-332	Provision for loss on disaster	4,237
		Other	13,823
<b>Noncurrent assets</b>	<b>785,736</b>	<b>Noncurrent liabilities</b>	<b>607,011</b>
<b>Property, plant &amp; equipment</b>	<b>603,639</b>	Bonds payable	57,000
Buildings and structures, net	103,949	Long-term loans payable	466,765
Oil storage depots, net	16,551	Deferred tax liabilities	11,268
Machinery, equipment and vehicles, net	163,298	Deferred tax liabilities for land revaluation	33,210
Land	302,808	Provision for special repairs	6,689
Lease assets, net	641	Provision for retirement benefits	5,647
Construction in progress	9,026	Negative goodwill	5,027
Other, net	7,362	Other	21,403
<b>Intangible fixed assets</b>	<b>11,517</b>	<b>Net asset</b>	<b><u>350,239</u></b>
Leasehold right	1,125	<b>Shareholders' equity</b>	<b><u>316,351</u></b>
Software	3,587	Capital stock	107,246
Other	6,804	Capital surplus	89,440
<b>Investments and other assets</b>	<b>170,579</b>	Retained earnings	119,803
Investment securities	99,668	Treasury stock	-138
Investments in capital	202	<b>Accumulated other comprehensive income</b>	<b>16,378</b>
Long term loans receivable	1,314	Valuation difference	669
Long-term prepaid expenses	4,840	on available-for-sale securities	
Deferred tax assets	35,081	Deferred gains or losses on hedges	6,459
Other	30,384	Revaluation reserve for land	14,147
Allowance for doubtful accounts	-912	Foreign currency translation adjustment	-4,898
<b>Deferred assets</b>	<b>324</b>	<b>Minority interests</b>	<b>17,508</b>
Bond issuance cost	324		
<b>Total assets</b>	<b>1,579,424</b>	<b>Total liability and net assets</b>	<b>1,579,424</b>

## Consolidated Statement of Income

Fiscal Year 2010 (From April 1, 2010 to March 31, 2011)

(Unit: million yen)

Item	Amount	
<b>I Net sales</b>		<b>2,771,523</b>
<b>II Cost of sales</b>		<b>2,539,032</b>
<b>Gross profit</b>		<b>232,490</b>
<b>III Selling, general and administrative expenses</b>		<b>128,393</b>
<b>Operating income</b>		<b>104,097</b>
<b>IV Non-operating income</b>		
Interest income	150	
Dividends income	1,171	
Rent income on noncurrent assets	1,190	
Amortization of negative goodwill	1,251	
Foreign exchange gains	106	
Equity earnings of affiliates	407	
Other	3,519	7,797
<b>V Non-operating expenses</b>		
Interest expenses	12,242	
Other	3,557	15,799
<b>Ordinary income</b>		<b>96,094</b>
<b>VI Extraordinary income</b>		
Gain on sales of noncurrent assets	1,044	
Gain on allotment of investment securities	151	
Gain on sales of subsidiaries and affiliates' stocks	13	1,209
<b>VII Extraordinary loss</b>		
Loss on sales of noncurrent assets	213	
Loss on disposal of noncurrent assets	3,521	
Impairment loss	3,857	
Loss on sales of stocks of subsidiaries and affiliates	22	
Loss on valuation of investment securities	2,983	
Loss on valuation of stocks of subsidiaries and affiliates	29	
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,660	
Loss on disaster	5,749	
Loss on disposal of recoverable accounts under production sharing	3,523	
Loss on litigation	2,291	23,852
<b>Income before income taxes and minority interests</b>		<b>73,451</b>
Income taxes-current	27,958	
Income taxes-deferred	14,175	42,133
<b>Income before minority interests</b>		<b>31,318</b>
Minority interests in income		2,384
<b>Net income</b>		<b>28,933</b>

## Consolidated Statement of Changes in Net Assets

Fiscal Year 2010 (from April 1, 2010 to March 31, 2011)

(Unit: million yen)

	Shareholders' Equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2010	107,246	89,440	99,685	-134	296,239
Changes during the period					
Cash dividends			-6,779		-6,779
Net income			28,933		28,933
Change of scope of equity method			-483		-483
Reversal of revaluation reserve for land			-1,553		-1,553
Acquisition of treasury stock				-4	-4
Disposal of treasury stock		-0		0	0
Changes in items other than shareholders' equity during the period, net					
Total changes during the period	-	-0	20,117	-4	20,112
Balance at March 31, 2011	107,246	89,440	119,803	-138	316,351

	Accumulated other comprehensive income					Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at March 31, 2010	-529	8,761	12,593	-1,318	19,507	15,832	331,579
Changes during the period							
Cash dividends							-6,779
Net income							28,933
Change of scope of equity method							-483
Reversal of revaluation reserve for land			1,553		1,553		-
Acquisition of treasury stock							-4
Disposal of treasury stock							0
Changes in items other than shareholders' equity during the period, net	1,198	-2,301		-3,579	-4,683	1,675	-3,007
Total changes during the period	1,198	-2,301	1,553	-3,579	-3,129	1,675	18,659
Balance at March 31, 2011	669	6,459	14,147	-4,898	16,378	17,508	350,239

## Notes to Consolidated Financial Statements

In the consolidated balance sheet, consolidated statement of income and consolidated statement of changes in net assets of Cosmo Oil Co., Ltd. (the "Company") represented in the million yen unit, figures less than 1 million yen are rounded down.

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

#### 1. Items concerning the Scope of Consolidation for Reporting

##### (1) Number of consolidated subsidiaries: 37

Abu Dhabi Oil Co., Ltd.	Akita Wind Power Laboratory Co., Ltd.	Ikata Eco Park Co., Ltd.	EcoPower Co., Ltd.
Eco World Kuzumaki Wind Power Co., Ltd.	Qatar Petroleum Development Co., Ltd.	Kansai Cosmo Logistics Co., Ltd.	Cosmo Oil Ashmore, Ltd.
Cosmo Engineering Co., Ltd.	Cosmo Oil International. Pte. Ltd.	Cosmo Oil of U.S.A., Inc.	Cosmo Oil (U.K.) Plc.
Cosmo Oil Europe B.V.	Cosmo Kaiun Co., Ltd.	Cosmo Computer Center Co., Ltd.	Cosmo Seiwa Agriculture CO., Ltd.
Cosmo Petroleum Gas Co., Ltd.	Cosmo Oil (Shanghai) Co., Ltd.	Cosmo Oil Sales Corp.	Cosmo Oil Lubricants Co., Ltd.
Cosmo Research Institute	Cosmo Techno Yokkaichi Co., Ltd.	Cosmo Trade & Service Co., Ltd.	Cosmo Business Support Co., Ltd.
Cosmo Property Service Corp.	Cosmo Petro Service Co., Ltd.	Cosmo Matsuyama Oil Co., Ltd.	Cosmo Delivery Service Co., Ltd.
Sakaide Cosmo Kosan Co., Ltd.	CM Aromatics Co., Ltd.	Tachikawa Wind Power Laboratory Co., Ltd.	Dangamine Wind Farm Co., Ltd.
Choshi Wind Farm Co., Ltd.	Hasaki Wind Farm Co., Ltd.	Hokuto Kogyo Co., Ltd.	Yokkaichi LPG Terminal Co., Ltd.
Wakkanai Wind Farm Co., Ltd.			

Cosmo Oil Europe B.V. which was established by The Company is included in the consolidated subsidiaries, effective from FY2010.

EcoPower Co., Ltd. merged Iwata Wind Farm Co., Ltd. during FY2010.

##### (2) Major Non-consolidated Subsidiaries:

Tohoku Cosmo Gas Co., Ltd.

Reason for exclusion from accounting consolidation:

The Company has 22 subsidiaries that were excluded from its consolidated subsidiaries because they are small businesses and their respective total assets, net sales, and net income/loss and retained earnings (both amounts equivalent to what is accounted for under the equity method) have no material impact on the consolidated financial statements of the Company.

#### 2. Items Concerning the Application of the Equity Method

##### (1) Number of Non-consolidated Subsidiaries Accounted for Using the Equity Method: 22

Major subsidiaries: Tohoku Cosmo Gas Co., Ltd.

Chubu Shizai, Ltd. excluded from the scope of consolidated companies accounted for using the equity method due to the sale of all of its shares owned by the Company during FY2010.

PCS Co., Ltd. was excluded from the application of the equity method since its liquidation processes were completed during FY2010.

##### (2) Number of Affiliated Companies Accounted for Using the Equity Method: 6

Maruzen Petrochemical Co., Ltd., United Petroleum Development Co., Ltd., Tozai Oil Terminal Co., Ltd., Okinawa CTS Corp., GotoKishuku Wind Power Laboratory Co., Ltd. and HC Petrochem Co., Ltd.

HC Petrochem Co., Ltd. included in the scope of consolidated companies accounted for using the equity method due to the increased importance of the company during FY2010.

##### (3) Major Business Entities of Affiliated Companies Not Accounted for Using the Equity Method:

Ogishima Oil Terminal Co., Ltd., Kasumi Sanbashi Kanri Co., Ltd.

Reasons for Exclusion from the Application of the Equity Method:

The equity method does not apply to the above subsidiaries and affiliates because their net income/loss and retained earnings (both amounts equivalent to what is accounted for under the equity method) have little impact on the consolidated financial statements of the Company on an individual basis, nor have any material impact on them on an aggregate basis.

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

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

#### 3. Items concerning the Accounting Periods of the Consolidated Subsidiaries

Of the 37 consolidated subsidiaries, Abu Dhabi Oil Co., Ltd., Qatar Petroleum Development Co., Ltd., Cosmo Oil Ashmore, Ltd., Cosmo Oil International. Pte. Ltd., Cosmo Oil (U.K.) Plc., Cosmo Oil Europe B.V. and Cosmo Oil (Shanghai) Co., Ltd. adopt a fiscal year ending December 31 and Akita Wind Power Laboratory Co., Ltd. adopts a fiscal year ending February 28, respectively.

The consolidated financial statements herein have been developed by using their financial reports as of December 31, 2010 or February 28, 2011 and any material transactions arising between end of their FY and consolidated FY, the date for the consolidated settlement of accounts for the Company, are reflected on the consolidated financial statements herein by making necessary adjustments.

#### 4. Items concerning the Accounting Standards

##### (1) Significant Asset Valuation Standards and Methods

###### 1) Securities

a. Securities held to maturity: Stated at amortized cost method

###### b. Other securities:

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

Securities with no available fair market value: Stated at cost determined by the moving average method

###### 2) Inventories:

Principally stated at cost determined by the weighted average method (however, the amounts of inventories stated in the balance sheets were computed by using the method that book values are reduced to reflect declines in profitability).

###### 3) Derivative financial instruments: Stated at fair value.

##### (2) Significant Depreciable Assets and Depreciation Methods

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

The straight line method is mainly adopted to calculate depreciation expenses for these asset items. The number of years of their useful lives and their residual value are calculated based on the criteria defined under the Corporation Tax Law of Japan, providing that the economic useful life of 15 years is adopted for the Company's service stations by taking their actual past performances into consideration and the economic useful life of 14 years is adopted for the Company's Coker Unit. As for Abu Dhabi Oil Co., Ltd., a consolidated subsidiary of the Company, is adopted the number of years for useful life provided under the interest right agreement on the subsidiary signed by the investment partners thereto. As for Eco Power Co., Ltd. and its subsidiaries, which are now consolidated subsidiaries of the Company, economic useful life of 20 years is adopted mainly for the wind mills run by them.

###### 2) Intangible Fixed Assets (except lease assets):

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

###### 3) Lease assets :

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

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

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

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

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

###### 4) Long-term Prepaid Expenses :

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

##### (3) Accounting Process Applied to Deferred Assets

###### Bond Issuance Cost:

The cost for bond issuance is depreciated in the straight line method over the term of redemption.

##### (4) Standards for Recording Significant Allowances

###### 1) Allowance for doubtful accounts

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

a) Ordinary accounts receivable: The amount of allowance calculated at the actual ratio of bad debts

b) Highly doubtful receivables and claims in bankruptcy and reorganization, etc.: The amount of allowance calculated based on the evaluation of financial situations of individual accounts involved.

2) Provision for loss on disaster

The Company recorded a reasonably estimated amount, expected to be incurred as of March 31, 2011, of costs for removal and restoration of its assets damaged by the Great East Japan Earthquake in March 2011.

3) Provision for special repairs

An allowance is set aside to cover expenses arising from the inspection and repairs of the oil tanks subject to the open regular inspection in compliance with the Fire Service Law of Japan, and an amount equal to the estimated cost of periodically required repairs was added to the provision for FY2010.

As for Cosmo Matsuyama Oil Co., Ltd., one of the subsidiaries of the Company, a certain amount of money to cover expenses arising from regular repairs of the machinery and equipment of its refinery was recorded for FY2010 in addition to the above charge.

4) Provision for retirement benefits

An allowance is put aside to cover retirement and severance benefits payable to employees and a certain amount was recorded based on the estimated amount of projected benefit obligation and the fair value of the pension assets as of March 31, 2011.

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

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

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

(5) Other Important Items Necessary to Develop Consolidated Financial Statements

1) Standards for Recognition of Construction Revenue and Cost

In recognizing construction revenues of engineering contracts undertaken by the Company, the percentage-of-completion method is applied to such contracts in which the outcome of the construction activity is deemed certain by the end of FY2010, while the completed contract method (The percentage of construction as of the end of FY2010 is estimated based on the method of the ratio of actual cost incurred to total estimated cost.) is applied to other construction contracts.

2) Accounting Process for Consumption Tax

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

3) Accounting Process for Cost Recovery under Production Sharing

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

5. Items concerning Amortization on Goodwill

Goodwill items are in principle amortized in accordance with the equal installment method over 5 years, providing that small-amount and negative ones are amortized in a lump sum.

**(Notes changes in accounting principles and processing and representation methods adopted to prepare the consolidated financial statements)**

1. Changes in Accounting Principles and Procedures

(1) Adoption of the Accounting Standard for Asset Retirement Obligations

Effective from FY2010, the Company adopted the "Accounting Standard for Asset Retirement Obligations" (the Accounting Standards Board of Japan (ASBJ) Statement No. 18 issued on March 31, 2008)" and the "Guidance on Accounting Standard for Asset Retirement Obligations" (the ASBJ Guidance No. 21 issued on March 31, 2008)".

This change reduced consolidated operating income and ordinary income by ¥226 million, respectively, and reduced consolidated net income before taxes and other adjustments by ¥1,892 million, for FY2010.

(2) Adoption of the “Accounting Standard for Equity Method of Accounting for Investments” and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method”

Effective from FY2010, the Company adopted the “Accounting Standard for Equity Method of Accounting for Investments” (the ASBJ Statement No. 16 issued on March 10, 2008) and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (the ASBJ Practical Issues Task Force (PITF) No. 24 issued on March 10, 2008), making necessary adjustments for consolidated financial reporting.

This change were not important to consolidated ordinary income and consolidated net income before taxes and other adjustments.

(3) Adoption of the Accounting Standard for Measurement of Inventories

Some consolidated subsidiaries of the Company, effective from FY2010, adopted the “Accounting Standard for Measurement of Inventories” (the ASBJ Statement No. 9 issued on September 26, 2008) and changed inventory valuation methods from the LIFO method to the weighted average method.

This change increased consolidated operating income, ordinary income and net income before taxes and other adjustments for FY2010 by ¥4,170 million, respectively.

(4) Application of the Accounting Standard for Business Combinations, etc.

Effective from FY2010, the Company adopted the “Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on December 26, 2008), the “Accounting Standard for Business Divestitures (ASBJ Statement No. 7 issued on December 26, 2008), and the “Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 issued on December 26, 2008).

2. Changes in Representation Methods, etc.

(1) Consolidated Statement of Income

Effective from FY2010, the Company discloses the account item of “net income before minority interests” by applying the “Ordinance for Partial Revisions of the Enforcement Regulations of the Corporate Law, the Corporate Calculation Regulations, etc. (Ordinance of the Ministry of Justice No. 7 issued on March 27, 2009) based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 issued on December 26, 2008).

(2) Additional Information

Effective from FY2010, the Company reclassifies the existing item of “valuation and translation adjustments” in the section of net assets into the new account of “accumulated other comprehensive income” for disclosure by applying the “Ordinance for Partial Revisions of the Corporate Calculation Regulations (Ordinance of the Ministry of Justice No. 33 issued on September 30, 2010) based on the “Accounting Standard for Comprehensive Income” (ASBJ Statement No. 25 issued on June 30, 2010).



**(Notes to Consolidated Balance Sheet)**

1. Cumulative depreciation expenses for the property, plant and equipment	¥736,646million
2. Pledged Assets	
Breakdown of Assets Pledged as Collateral and Amounts thereof:	
Property, plant and equipment	¥348,238million
Cash and deposits	¥380million
Accounts receivable-other	¥29million
Investments in securities	¥124million
Other current assets	¥1,572million
Secured Liabilities:	
Long-term loans payable (including repayments due within one year)	¥104,818million
Debts related to transactions with banks	¥20,996million
3. Contingencies	
(1) Guaranty Liabilities	
HC Petrochem Co., Ltd. (liabilities to guarantee their borrowings from financial institutions, etc.)	¥10,976million
Employee and 5 Dealers, etc. (liabilities to guarantee their borrowings from financial institutions, etc.)	¥2,837million
(2) Suits, etc.	
Concerning the matter in which the Company and other companies were claimed to have violated the Antimonopoly Act with respect to bidding related to delivery of petroleum products to the then Japanese Defense Agency (now, the Ministry of Defense), the Company received an order for payment of surcharges (¥1,751 million) on January 16, 2008 from the Fair Trade Commission (FTC). However, the Company submitted a motion for commencement of adjudication procedures to the FTC on February 15, 2008 requesting another trial, and following that motion, the FTC issued a decision for commencement of adjudication on March 24, 2008, and during the year ended March 31, 2011, one session of trial was held, resulting in the court decision made on February 16, 2011. Upon receipt of it, the Company's Board of Directors adopted a resolution not to file a claim to rescind the decision on March 15, 2011. Thus, the Company recorded ¥1,751 million as a part of loss on litigation (extraordinary losses) in the Consolidated Statement of Income for FY2010.	
4. Items concerning Revaluation of Land	
The Company and two of its consolidated subsidiaries revalued their land properties used for business under the "Law concerning Revaluation Reserve for Land" (Law No. 34 issued on March 31, 1998). The income tax portion on variances due to revaluation is stated in the "Deferred taxes for revaluation reserve for land" account in the "Liabilities" section on the Balance Sheet and the revaluation variances, net of the income tax portion, are stated in the "Revaluation reserve for land" account in the "Net Assets" section on the Balance Sheet.	
• Revaluation method	
The land sites for the refineries were valued in accordance with the appraisal provided in Paragraph 5 of Article 2 of the "Enforcement Ordinance for the Law concerning the Revaluation Reserve for Land" (Government Ordinance No. 119 issued on March 31, 1998), and other land sites were valued by referring to the road ratings provided in Paragraph 4 of Article 2 of the "Enforcement Ordinance for the Law concerning the Revaluation Reserve for Land," as well as making some rational adjustments.	
• Date of Revaluation	
March 31, 2002 (and December 31, 2001 completed by one consolidated subsidiary)	
• The total amount of the revalued land at fair value as of March 31, 2011 is smaller than their total carrying amount after revaluation and the difference amounted to:	
	¥96,143million

## 5. Financial Covenants

Out of borrowings made by the Company, borrowings amounting to ¥141,152 million (including those payable within the next year) come with financial covenants with the acceleration clause which will be activated with respect to such liabilities under certain loan contracts if the Company fails to comply with any of the following financial covenants (financial covenants vary from different loan contracts, but key covenants are stated below):

- 1) The Company shall not record ordinary loss, as stated in its consolidated and non-consolidated income statements, for three consecutive years;
- 2) The Company shall maintain the amount of net assets at ¥296.0 billion or more as stated in its consolidated balance sheets at the end of each fiscal year and of the second quarter thereof;
- 3) The Company shall maintain the amount of net assets at 75% or more of the level recorded as of September 30, 2006 as stated in its non-consolidated balance sheets at the end of each fiscal year and of the second quarter thereof.

Out of borrowings made by some subsidiaries of the Company, borrowings amounting to ¥720 million (including those payable within the next year) come with financial covenants and if any of such subsidiaries fails to comply with such financial covenants, they will be requested by the financial institutions, or parties to loan agreements signed by such subsidiaries, that the terms and conditions of such loan agreements be reviewed. As of the end of FY2010, a part of the financial covenants was not complied with but the relevant financial institutions recognized the fact and agreed not to request for amending any terms and conditions of the agreements.

### (Notes to Consolidated Statement of Changes in Net Assets)

#### 1. Types and Number of Outstanding Shares and Treasury Stock as of March 31, 2010

Outstanding shares	Ordinary shares	847,705,087 shares
Treasury stock	Ordinary shares	631,461 shares

#### 2. Distribution of Surplus:

##### (1) Dividend Payments

(Resolution adopted by)	Total dividend amount (¥ mil)	Funded by	Dividend per share (¥)	Standard date for dividend payment	Effective date
Shareholders' Meeting held on June 23, 2010	6,779	Retained earnings	8	March 31, 2010	June 24, 2010

##### (2) The dividend payment for which the base date belongs to FY2010 but for which the effective date comes after FY2010:

The following proposal is to be made at the annual shareholders' meeting held on June 23, 2011:

(Resolution adopted by)	Total dividend amount (¥ mil)	Funded by	Dividend per share (¥)	Standard date for dividend payment	Effective date
Shareholders' Meeting held on June 23, 2011	6,779	Retained earnings	8	March 31, 2011	June 24, 2011

### (Notes to Financial Products)

#### 1. Information on the Status of Financial Products

The Group procures funds mainly necessary to undertake the oil refining and marketing and oil exploration and production businesses based on the capital spending plans therefore. Temporary extra funds are invested in highly safe financial instruments, while short-term working funds are raised through borrowings from financial institutions, etc.

The Group also keeps credit risks involving customers with respect to notes receivable, accounts receivable and accounts receivable-other lower by managing them in accordance with its credit management scheme. Investment securities are mainly equity securities, out of which listed shares are reviewed on a quarterly basis to keep track of their fair value.

Borrowings and corporate bonds are used to raise working funds (mainly short-term) and capital spending funds (long-term) and interest rate swap contracts are purchased to reduce interest rate fluctuations on some long-term borrowings to get interest payable fixed.

The Group uses foreign currency forward contracts and currency option contracts to hedge risks due to the effect of currency exchange rate fluctuations, and also uses crude oil and petroleum product swap contracts and commodity forward contracts in open market to hedge risks stemming from commodity price fluctuations.

The Group trades derivatives within the range of actual demand in accordance with its internal control rules, and The Group has a policy of not executing speculative derivative transactions.

2. Information about Fair Value of Financial Products, etc.

The book value of the following items on the consolidated balance sheet, their fair value and the variance between the two amounts as of March 31, 2011 are stated as follows:

(Millions of yen)

	Book value on the consolidated balance sheet *	Fair value*	Variance
(1) Cash and deposits	94,343	94,343	-
(2) Notes and accounts receivable-trade	229,618	229,618	-
(3) Investment securities			
Other securities	15,096	15,096	-
(4) Accounts receivable-other	28,405	28,405	-
(5) Notes and accounts payable-trade	(243,914)	(243,914)	-
(6) Short-term loans payable	(176,366)	(176,366)	-
(7) Accounts payable-other	(80,336)	(80,336)	-
(8) Accrued volatile oil and other petroleum taxes	(71,431)	(71,431)	-
(9) Income taxes payable	(7,252)	(7,252)	-
(10) Accrued consumption taxes	(13,222)	(13,222)	-
(11) Bonds payable	(57,000)	(57,033)	33
(12) Long-term loans payable	(466,765)	(471,784)	5,018
(13) Derivative transactions	12,555	12,555	-

Notes: \* Items recorded in the liabilities section are stated in ( ).

(Note 1) How to calculate the fair value of financial products and information about securities and derivative transactions are stated as follows:

(1) Cash and deposits, (2) Notes and accounts receivable-trade and (4) Accounts receivable-other

They are settled on a short-term basis and their fair values are roughly equal to their book value, so that they are stated at book value.

(3) Investment securities

As for their fair value, equity securities are stated at fair value on the trade exchanges they are listed.

Non-marketable equity securities (“¥52million Bonds of held-to-maturity” and “¥84,519million Other securities”) are not listed item (3) above, because there were extremely difficult to figure out the fair value.

(5) Notes and accounts payable-trade, (6) Short-term loans payable, (7) Accounts payable-other, (8) Accrued volatile oil and other petroleum taxes and (9) Income taxes payable, (10) Accrued consumption taxes

They are settled on a short-term basis and their fair value is roughly equal to their book value, so that they are stated at book value.

(11) Bonds payable

The fair value of a corporate bond is calculated by discounting the sum of its principal and interest at an interest rate at which a similar corporate bond is assumed to be issued in the market.

(12) Long-term loans payable

The fair value of a long-term borrowing is calculated by discounting the sum of its principal and interest at an interest rate at which a similar, new borrowing is assumed to be made.

(13) Derivative transactions

The fair value of a derivative contract is calculated based on the price provided by the financial institution, etc. from which it was purchased and its final value in the forward market.

A specially treated interest rate swap is accounted for as an integral part of the long-term borrowing, or the subject of hedging, so that the fair value of the swap is stated by being included in the fair value of the long-term borrowing (Please refer to Items (12) above).

**(Notes to Leasehold Properties and Other Real Estate)**

## 1. Information about the Current Status of Leasehold Properties and Other Real Estate

The Company and some subsidiaries own leasehold service stations, office buildings and other properties in Tokyo and other areas, and they also own idle properties which are not expected to be utilized in the future.

## 2. Information on the Fair Value of the Leasehold Properties Held

(Millions of yen)

Purpose of use	Book value on the balance sheet	Fair value
Idle properties	10,781	13,764
Service stations	3,617	2,918
Refining facilities	1,569	1,285
Employee dormitories, apartments, etc.	3,441	3,435
Office buildings	711	2,579
Commercial facilities, etc.	5,251	5,414
Other	4,813	3,437
Total amount	30,187	32,836

(Note 1) The book value of each property on the balance sheet is its acquisition cost less cumulative depreciated expenses therefore.

(Note 2) The fair value of major properties as of the end of the current fiscal year is the amount based on the statement of the property appraisal standard provided by the external licensed appraiser, while the fair value of other properties is determined by referring to the amount assessed based the property appraisal standard. As for properties of less importance, certain assessed amounts or the amounts based on the measurement indices which are considered as reflecting appropriate market prices are regarded as the fair value of such properties, while the appropriate book value of some buildings and other depreciated assets is regarded as their fair value.

**(Notes to Per-Share Information)**

- |                         |         |
|-------------------------|---------|
| 1. Net assets per share | ¥392.80 |
| 2. Net income per share | ¥34.16  |

**(Notes to Material Contingencies)**

None

**(Notes to Business Combination)**

&lt; Common Control Transaction, etc.&gt;

## 1. The outline of the transaction

- (1) Name of the business and the description of their businesses
  - a Name of the business: FCC-based and other product business of Cosmo Petroleum Gas Co., Ltd., a consolidated subsidiary of Cosmo Oil Co., Ltd.
  - b Line of the business : Sales and incidental businesses of propane and butane manufactured in the FCC and alkylation units at the Company's refinery.
- (2) Date of business combination  
July 1, 2010
- (3) Legal form of business combination  
Absorption-type split of Cosmo Petroleum Gas Co., Ltd. (a consolidated subsidiary of Cosmo Oil Co., Ltd.), with Cosmo Oil Co., Ltd. as the continuing company.
- (4) Name of the company upon business combination  
Cosmo Oil Co., Ltd.

(5) Item concerning the outline of other transactions

FCC-based and other products are sold as raw materials used to manufacture petrochemical products. The Company acquired the business of the subsidiary to integrate sales contacts into one, designed to improve efficiency in operations of the entire Cosmo Oil Group.

2. Outline of Accounting Process Execute

The above transaction was accounted for as a common control transaction based on the “Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on December 26, 2008) and the “Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 issued on December 26, 2008).

**(Other note)**

The Company and some subsidiaries recorded the amount of losses attributable to the Great East Japan Earthquake that occurred in March 2011 as loss on disaster in the section of extraordinary loss of the Consolidated Statement of Income for FY2010, with the breakdown of major items including:

Cost for removal of damaged assets, etc.	¥2,154million
Cost for disaster relief support for victimized business partners and employees, etc.	¥1,688million
Cost for restoration of stricken assets, etc.	¥1,160million

The amount of loss on disaster above includes ¥4,237million transferred to the provision for loss on disaster.

## **Balance Sheet**

Fiscal Year 2010 (As of March 31, 2011)

(Unit: million yen)

<b>Item</b>	<b>Amount</b>	<b>Item</b>	<b>Amount</b>
<b>Assets</b>	<b><u>1,437,625</u></b>	<b>Liabilities</b>	<b><u>1,160,782</u></b>
<b>Current assets</b>	<b><u>752,753</u></b>	<b>Current liabilities</b>	<b><u>596,919</u></b>
Cash and deposits	60,437	Accounts payable-trade	238,384
Notes receivable-trade	152	Short-term loans payable	112,324
Accounts receivable-trade	199,230	Current portion of long-term loans payable	43,232
Short-term investment securities	11	Accounts payable-other	85,763
Merchandise and finished goods	180,017	Accrued volatile oil and other petroleum taxes	71,431
Raw materials and supplies	191,441	Income taxes payable	696
Advance payments-trade	117	Accrued consumption taxes	11,686
Prepaid expenses	2,710	Accrued expenses	4,582
Short-term loans receivable	13	Advances received	6,423
Short-term loans receivable to subsidiaries and affiliates	30,569	Deposits payable	17,388
Accounts receivable-other	64,739	Unearned revenue	42
Swap assets	11,372	Deferred tax liabilities	681
Other	12,120	Asset retirement obligations	31
Allowance for doubtful accounts	-181	Provision for loss on disaster	4,126
		Other	124
<b>Noncurrent assets</b>	<b><u>684,547</u></b>	<b>Noncurrent liabilities</b>	<b><u>563,862</u></b>
<b>Property, plant &amp; equipment</b>	<b><u>506,154</u></b>	Bonds payable	57,000
Buildings, net	23,416	Long-term loans payable	455,348
Structures, net	54,153	Deferred tax liabilities for land revaluation	30,868
Oil storage depots, net	14,798	Long-term deposits payable	8,029
Machinery and equipment, net	135,035	Provision for special repairs	5,518
Vehicles, net	148	Provision for retirement benefits	2,266
Tools, furniture and fixtures, net	3,060	Asset retirement obligations	2,634
Land	267,937	Other	2,196
Lease assets, net	401		
Construction in progress	7,202		
<b>Intangible fixed assets</b>	<b><u>6,608</u></b>	<b>Net assets</b>	<b><u>276,843</u></b>
Patent right	73	<b>Shareholders' equity</b>	<b><u>259,758</u></b>
Leasehold right	986	<b>Capital stock</b>	<b><u>107,246</u></b>
Right of Trademark	0	<b>Capital surplus</b>	<b><u>89,440</u></b>
Software	2,925	Legal capital surplus	89,439
Other	2,623	Other capital surplus	1
<b>Investments and other assets</b>	<b><u>171,784</u></b>	<b>Retained earnings</b>	<b><u>63,161</u></b>
Investment securities	22,525	Legal retained earnings	7,407
Stocks of subsidiaries and affiliates	66,654	Other retained earnings	55,753
Investments in capital	142	Reserve for special depreciation	0
Long term loans receivable	149	Reserve for overseas investment loss	57
Long-term loans receivable from employees	17	Retained earnings brought forward	55,695
Long-term loans receivable from subsidiaries and affiliates	31,372	<b>Treasury stock</b>	<b><u>-90</u></b>
Long-term prepaid expenses	3,805		
Long-term accounts receivable-other	403	<b>Valuation and translation adjustments</b>	<b><u>17,084</u></b>
Long-term deposits	9,727	<b>Valuation difference on available-for-sale securities</b>	<b><u>-1,159</u></b>
Deferred tax assets	31,836	<b>Deferred gains or losses on hedges</b>	<b><u>6,670</u></b>
Other	5,410	<b>Revaluation reserve for land</b>	<b><u>11,574</u></b>
Allowance for doubtful accounts	-262		
<b>Deferred assets</b>	<b><u>324</u></b>		
Bond issuance cost	324		
<b>Total assets</b>	<b><u>1,437,625</u></b>	<b>Total liability and net assets</b>	<b><u>1,437,625</u></b>

## Statement of Income

Fiscal Year 2010 (From April 1, 2010 to March 31, 2011)

(Unit: million yen)

Item	Amount	
<b>I Net sales</b>		<b>2,551,325</b>
<b>II Cost of sales</b>		<b>2,421,520</b>
<b>Gross profit</b>		<b>129,804</b>
<b>III Selling, general and administrative expenses</b>		<b>76,697</b>
<b>Operating profit</b>		<b>53,107</b>
<b>IV Non-operating income</b>		
Interest income	1,331	
Interest on securities	7	
Dividends income	5,365	
Rent income on noncurrent assets	1,273	
Foreign exchange gains	1,999	
Other	3,378	13,356
<b>V Non-operating expenses</b>		
Interest expenses	11,581	
Interest on bonds	428	
Other	3,919	15,929
<b>Ordinary profit</b>		<b>50,534</b>
<b>VI Extraordinary income</b>		
Gain on sales of noncurrent assets	944	
Gain on sales of subsidiaries and affiliates' stocks	213	
Gain on allotment of investment securities	151	
Gain on extinguishment of tie-in shares	27	1,336
<b>VII Extraordinary losses</b>		
Loss on sales of noncurrent assets	76	
Loss on disposal of noncurrent assets	2,007	
Impairment loss	1,168	
Loss on valuation of investment securities	2,983	
Loss on valuation of stocks of subsidiaries and affiliates	1,861	
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,094	
Loss on disaster	5,567	
Loss on disposal of recoverable accounts under production sharing	3,523	
Loss on litigation	1,751	20,034
<b>Income before income taxes</b>		<b>31,836</b>
Income taxes-current	37	
Income taxes-deferred	11,047	11,084
<b>Net income</b>		<b>20,751</b>

## Statement of Changes in Net Assets

Fiscal Year 2010 (Period from April 1, 2010 to March 31, 2011)

(Unit: million yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury stock	Total
		Legal capital surplus	Other capital surplus	Total	Legal retained earnings	Other retained earnings	Total		
Balance at March 31, 2010	107,246	89,439	1	89,440	7,407	43,350	50,758	-85	247,360
Changes of items during the period									
Dividends from surplus						-6,779	-6,779		-6,779
Net Income						20,751	20,751		20,751
Reversal of revaluation reserve for land						-1,569	-1,569		-1,569
Purchase of treasury stock								-4	-4
Disposal of treasury stock			-0	-0				0	0
Reversal of other retained earnings						-	-		-
Net changes of items other than shareholders' equity									
Total changes of items during the period	-	-	-0	-0	-	12,402	12,402	-4	12,398
Balance at March 31, 2011	107,246	89,439	1	89,440	7,407	55,753	63,161	-90	259,758

	Valuation and translation adjustments				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at March 31, 2010	-2,267	8,717	10,004	16,455	263,815
Changes of items during the period					
Dividends from surplus					-6,779
Net Income					20,751
Reversal of revaluation reserve for land			1,569	1,569	-
Purchase of treasury stock					-4
Disposal of treasury stock					0
Reversal of other retained earnings					-
Net changes of items other than shareholders' equity	1,108	-2,047		-939	-939
Total changes of items during the period	1,108	-2,047	1,569	629	13,027
Balance at March 31, 2011	-1,159	6,670	11,574	17,084	276,843



Breakdown of Other Retained Earnings

	Reserve for special depreciation	Reserve for advanced depreciation of noncurrent assets	Reserve for advanced depreciation of noncurrent assets	Retained earnings brought forward	Total
Balance at March 31, 2010	0	119	16,625	26,604	43,350
Changes of items during the period					
Dividends from surplus				-6,779	-6,779
Net Income				20,751	20,751
Reversal of revaluation reserve for land				-1,569	-1,569
Purchase of treasury stock					
Disposal of treasury stock					
Reversal of other retained earnings	-0	-62	-16,625	16,688	-
Net changes of items other than shareholders' equity					
Total changes of items during the period	-0	-62	-16,625	29,090	12,402
Balance at March 31, 2011	0	57	-	55,695	55,753

## Notes to Financial Statements

1. In the non-consolidated balance sheet, non-consolidated statement of income and non-consolidated statement of changes in net assets of Cosmo Oil Co., Ltd. (the “Company”), figures less than 1 million yen are rounded down.

### 2. Notes to Items regarding Significant Accounting Policies

#### (1) Standards and Methods for Valuation of Securities

Securities held to maturity: Stated at amortized cost method

Stocks issued by subsidiaries and affiliated companies: Stated at cost determined by the moving average method

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

Securities with no available fair market value: Stated at cost determined by the moving average method

#### (2) Standards and Methods for Valuation of Inventories

Inventories are principally stated at cost determined by the weighted average method or the specific identification method (however, the amounts of inventories stated in the balance sheets were computed by using the method that book values are reduced to reflect declines in profitability).

#### (3) Valuation of Net Amounts of the Assets and Liabilities for which Derivative Transactions Are Executed:

Stated at fair value

#### (4) Methods for Depreciation of Fixed Assets

Property, plant & equipment The straight-line method

The number of years of their useful lives and their residual value are calculated based on the criteria defined under the Corporation Tax Law of Japan, providing that the economic useful life of 15 years is adopted for the Company’s service station by taking their actual past performances into consideration and the economic useful life of 14 years is adopted for the Company’s Coker Unit.

Intangible fixed assets

The straight- line method.

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

Leased Assets

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

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

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

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

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

Long-term Prepaid Expenses

The equal installment method

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

- (5) Accounting Process Applied to Deferred Assets.
- Bond issuance cost                      The cost for bond issuance is depreciated in the straight line method over the term of redemption.
- (6) Standards for Recording Allowances
- Allowance for doubtful accounts      An estimated amount of irrecoverable debts is set aside against any potential losses on the failure to collect the accounts receivable.
- a) Ordinary accounts receivable:  
        The amount of allowance calculated at the actual ratio of bad debts
- b) Highly doubtful receivables and claims in bankruptcy and reorganization, etc.:  
        The amount recognized for uncollectible accounts
- Provision for loss on disaster          The Company recorded a reasonably estimated amount, expected to be incurred as of March 31, 2011, of costs for removal and restoration of its assets damaged by the Great East Japan Earthquake in March 2011.
- Provision for special repairs          An allowance is set aside to cover expenses arising from the inspection and repairs of the oil tanks subject to the open regular inspection in compliance with the Fire Service Law of Japan, and an amount equal to the estimated cost of periodically required repairs was added to the provision for FY2010.
- An allowance is put aside to cover retirement and severance benefits payable to employees and a certain amount was recorded based on the estimated amount of projected benefit obligation and the fair value of the pension assets as of March 31, 2011.
- Provision for retirement benefits      Actual gains and losses are recognized in expenses at an amount prorated in the straight line method over a certain number of years (primarily 10 years), which is within the average of the estimated remaining years of service to be performed by the employees at the time of accrual, commencing with the fiscal year following the accrual time.
- Prior service cost obligation is recognized as an expense item at an amount prorated in the straight line method over a certain number of years (primarily 10 years) within the average of the remaining years of service to be performed by the employees at the time of accrual.
- The pension plan asset amounts exceeded the projected benefit obligation amounts after the deduction of unrecognized actuarial differences, and these excess portions are stated in the “Other” item of the “Investment and other assets” account on the balance sheet herein.
- (7) Accounting Process for Consumption Tax, etc.
- As for how to account for national and local consumption taxes, all domestic transactions are accounted for by excluding these tax amounts from the amounts thereof.
- (Changes in accounting policy)
- Accounting Standard for Asset Retirement Obligations
- Effective from FY2010, the Company adopted the “Accounting Standard for Asset Retirement Obligations” (the Accounting Standards Board of Japan (ASBJ) Statement No. 18 issued on March 31, 2008)” and the “Guidance on Accounting Standard for Asset Retirement Obligations” (the ASBJ Guidance No. 21 issued on March 31, 2008)”.
- This change reduced consolidated operating income and ordinary income by ¥162 million, respectively, and reduced consolidated net income before taxes and other adjustments by ¥1,260 million, for FY2010.

### 3. Notes to Non-Consolidated Balance Sheet

(1) Short-term loans receivable from subsidiaries and affiliates:	¥124,052million
Long-term loans receivable from subsidiaries and affiliates:	¥31,855million
Short-term loans payable to subsidiaries and affiliates:	¥111,431million
Long-term loans payable to subsidiaries and affiliates:	¥608million
(2) Cumulative depreciation expenses for the property, plant and equipment	¥472,097million
(3) Pledged Assets	
Breakdown of Assets Pledged as Collateral and Amounts thereof:	
Property, plant & equipment	¥307,577million
Marketable securities	¥9million
Other current assets	¥1,414million
Secured Liabilities:	
Long-term debts (including repayments due within the next year)	¥98,483million
Debts related to transactions with banks	¥20,996million
(4) Contingencies	
a. Guaranty Liabilities	
HC Petrochem Co., Ltd. (guaranteed loan from financial institutions, etc.)	¥10,976million
Eco Power Co., Ltd. (guaranteed loan from financial institutions, etc.)	¥4,406million
Ikata Eco Park Co., Ltd (the Company's submission of the letter of undertaking business management guidance (for the company) to financial institutions)	¥2,042million
4 Dealers, etc. (guaranteed loan from financial institutions, etc.)	¥7,599million
b. Suits, etc.	
Concerning the matter in which the Company and other companies were claimed to have violated the Antimonopoly Act with respect to bidding related to delivery of petroleum products to the then Japanese Defense Agency (now, the Ministry of Defense), the Company received an order for payment of surcharges (¥1,751 million) on January 16, 2008 from the Fair Trade Commission (FTC). However, the Company submitted a motion for commencement of adjudication procedures to the FTC on February 15, 2008 requesting another trial, and following that motion, the FTC issued a decision for commencement of adjudication on March 24, 2008, and during the year ended March 31, 2011, one session of trial was held, resulting in the court decision made on February 16, 2011. Upon receipt of it, the Company's Board of Directors adopted a resolution not to file a claim to rescind the decision on March 15, 2011. Thus, the Company recorded ¥1,751 million as loss on litigation (extraordinary loss) in the Statement of Income for FY2010.	
(5) Loans to directors and corporate auditors due to transactions with them	¥534million
(6) Items concerning Revaluation of Land	
The Company revalued their land properties used for business under the "Law concerning Revaluation Reserve for Land" (Law No. 34 issued on March 31, 1998). The income tax portion on variances due to revaluation is stated in the "Deferred taxes for revaluation reserve for land" account in the "Liabilities" section on the Balance Sheet and the revaluation variances, net of the income tax portion, are stated in the "Revaluation reserve for land" account in the "Net Assets" section on the Balance Sheet.	
• Revaluation method	
The land sites for the refineries were valued in accordance with the appraisal provided in Paragraph 5 of Article 2 of the "Enforcement Ordinance for the Law concerning the Revaluation Reserve for Land" (Government Ordinance No. 119 issued on March 31, 1998), and other land sites were valued by referring to the road ratings provided in Paragraph 4 of Article 2 of the "Enforcement Ordinance for the Law concerning the Revaluation Reserve for Land," as well as making some rational adjustments.	
• Date of Revaluation	
March 31, 2002	
• The total amount of the revalued land at fair value as of March 31, 2011 is smaller than their total carrying amount after revaluation and the difference amounted to:	
	¥91,847million

(7) Financial Covenants, etc.

Out of borrowings made by the Company, borrowings amounting to ¥138,240 million (including those payable within the next year) come with financial covenants with the acceleration clause which will be activated with respect to such liabilities under certain loan contracts if the Company fails to comply with any of the following financial covenants (financial covenants vary from different loan contracts, but key covenants are stated below):

- 1) The Company shall not record ordinary loss, as stated in its consolidated and non-consolidated income statements, for three consecutive years;
- 2) The Company shall maintain the amount of net assets at ¥296.0 billion or more as stated in its consolidated balance sheets at the end of each fiscal year and of the second quarter thereof;
- 3) The Company shall maintain the amount of net assets at 75% or more of the level recorded as of September 30, 2006 as stated in its non-consolidated balance sheets at the end of each fiscal year and of the second quarter thereof.

4. Notes to Non-Consolidated Statement of Income

Sales to subsidiaries and affiliates:	¥797,113million
Purchases from subsidiaries and affiliates:	¥404,830million
Non-business transaction with subsidiaries and affiliates:	¥21,744million

5. Notes to Non-Consolidated Statement of Changes in Net Assets

Type and Number of Treasury Stock as of March 31, 2011	
Common stock	279,813shares

6. Notes to Tax Effective Consequence Accounting	(Unit: million yen)
1. Current Deferred Tax Assets and Liabilities	
(1) Deferred tax assets:	
Provision for loss on disaster	1,668
Reserve for bonuses:	938
Accrued enterprise taxes	266
Others	1,417
Current deferred tax assets – Sub-total:	4,291
Valuation allowance:	(452)
Total current deferred tax assets:	3,839
(2) Deferred tax liabilities:	
Deferred gains on hedges	(4,521)
Total current deferred tax liabilities:	(4,521)
Net current deferred tax assets:	(681)
2. Non-Current Deferred Tax Assets and Liabilities	
(1) Deferred tax assets:	
Loss brought forward	41,160
Others	22,310
Non-current deferred tax assets – Sub-total:	63,470
Valuation allowance:	(28,954)
Total non-current deferred tax assets:	34,515
(2) Deferred tax liabilities:	
Prepaid pension cost:	(1,144)
Asset retirement obligations(PP&E):	(582)
Others	(952)
Total non-current deferred tax liabilities:	(2,679)
Net non-current deferred tax assets:	31,836
(3) Deferred tax asset and liability related to land revaluation:	
Deferred tax asset related to land revaluation:	13,704
Valuation allowance:	(13,704)
Total	—
Deferred tax liability related to land revaluation:	(30,868)
Net deferred tax liability related to land revaluation:	(30,868)

## 7. Notes to Fixed Assets Used Under Leases

Finance leases other than those under which the ownership of the leased assets is regarded as being transferred to lessees (in millions of yen):

(1) Amounts equivalent to the acquisition cost, accumulated depreciation and net book value of leased properties as of March 31, 2011:	
Acquisition cost equivalent:	9,906
Accumulated depreciation equivalent:	7,401
Net book value equivalent as of March 31, 2011:	2,504
(2) Net book value of lease obligations as of March 31, 2011	
Due within one year:	484
Due more than one year:	2,019
Total:	2,504
(3) Lease payments and depreciation equivalent:	
Lease payment:	569
Depreciation equivalent	569
(4) How to calculate the amounts equivalent to depreciation expenses	

The amount equivalent to a depreciation expense for a leased property is determined by the straight line method over its leasing term, which is regarded as its useful life, at the residual value of nil.

## 8. Notes to the Company's Transactions with Relevant Parties

### (1) Subsidiaries and Affiliated companies

Type	Name (Ownership type & ratio)	Line of business	Cosmo Oil's relationship with subsidiary	Account item for record entry	Transaction amount (¥mil)	Item	Balance as of Mar 31, '11 (¥mil)
Subsidiary	Cosmo Oil Sales Corporation (directly, 100% owned)	Sale of oil products	3 Cosmo Oil directors are concurrently the directors of the subsidiary  Sales of oil products made by Cosmo Oil	Oil product sales (*1)	335,894	Accounts receivable, trade	32,501
Subsidiary	Cosmo Property Service Corporation (directly, 100% owned)	Management and lease of service station equipments	3 Cosmo Oil directors are concurrently the directors of the subsidiary  Loans to it	Loans to it (*4) And Fund deposit (*2)	22,025	Short-term loans to subsidiaries/ affiliate Long-term loans to subsidiaries/ affiliate	16,500 5,500
				Interest receivable (*3)	250	Accounts receivable, other	120
Subsidiary	Cosmo Oil (U.K.) Plc. (directly, 100% owned)	Purchase and sale of crude oil and oil products	2 Cosmo Oil directors are concurrently directors of the subsidiary  Crude oil purchase from it	Crude oil purchases (*1)	176,976	Account payable, trade	33,189
				Interest payable (*3)	168		
Subsidiary	Cosmo Petroleum Gas Co., Ltd. (directly, 100% owned)	Import, storage and sale of LPG	4 Cosmo Oil directors are concurrently directors of the subsidiary  LPG sales to/purchase from it	Representing to make LPG overseas transactions	115,627	Accounts receivable, other	21,765
				Interest receivable (*3)	207	Account payable, trade	5,580
Subsidiary	Cosmo Matsuyama Oil Co., Ltd. (directly, 100% owned)	Manufacture and sale of Petrochemical Products, Storage, loading and discharging of petroleum products	4 Cosmo Oil directors are concurrently directors of the subsidiary  Receipt of debt guaranteed mortgage  Loans to it	Receipt of debt guaranteed mortgage (*5)	98,483	-	-
				Loans to it (*4) And Fund deposit (*2)	18,755	Short-term loans to subsidiaries/ affiliate Long-term loans to subsidiaries/ affiliate	5,916 12,282
				Interest receivable (*3)	277	Accounts receivable, other	31

Out of the amounts shown above, the transaction amounts are exclusive of consumption tax charges, while the balance amounts as of March 31, 2011 include such charges.

Conditions for Transactions with the Subsidiaries Above and the Policy to Determine such Conditions:

- Notes:
1. Conditions for transactions with such subsidiaries are similar to conditions under which the Company usually does business with companies in which the Company makes no capital investment.
  2. Loans/Deposits are based on the Company's group financing program and the transaction amounts are stated at an average amount of balance during FY2010.
  3. Interest rates are determined by taking market rates of interest and other conditions into consideration.
  4. Loans are used by the loan receivers as their working funds and each of the transaction amounts shown above is stated at an average amount of balance during FY2010.
  5. For the Company's loans from financial institutions, it arranges a mortgage with a part of our fixed assets. The transaction amounts are the balance of such loans at the end of FY2010

### (2) Director

Name of party (voting stock ownership)	Occupation of party	Cosmo Oil's relationship with party	Transaction with party	Transaction amount (¥mil)	Item	Balance as of Mar 31, '11 (¥mil)
Hideto Matsumura (directly, 0.0% owned)	Director Senior Executive Officer of Cosmo Oil Co., Ltd.	Managing Director of Cosmo Oil Co., Ltd.  Chairman of Cosmo Oil Eco Card Fund	Contributions(*)	29	-	-

The transaction amount shown above is exclusive of consumption tax charges.

Conditions for the Transaction with the Party Above and the Policy to Determine such Conditions:

Notes: It is transaction for so-called third party.

## 9. Notes to Per-Share Information

(1) Net assets per share	¥326.69
(2) Net income per share	¥24.49

## 10. Notes to Material Contingencies

None

## 11. Notes to Business Combinations

### (1) The outline of the transaction

- 1) Name of the business and the description of their businesses
  - a Name of the business: FCC-based and other product business of Cosmo Petroleum Gas Co., Ltd., a consolidated subsidiary of Cosmo Oil Co., Ltd.
  - b Line of the business : Sales and incidental businesses of propane and butane manufactured in the FCC and alkylation units at the Company's refinery.
- 2) Date of business combination  
July 1, 2010
- 3) Legal form of business combination  
Absorption-type split of Cosmo Petroleum Gas Co., Ltd. (a consolidated subsidiary of Cosmo Oil Co., Ltd.), with Cosmo Oil Co., Ltd. as the continuing company.
- 4) Name of the company upon business combination  
Cosmo Oil Co., Ltd.
- 5) Item concerning the outline of other transactions  
FCC-based and other products are sold as raw materials used to manufacture petrochemical products. The Company acquired the business of the subsidiary to integrate sales contacts into one, designed to improve efficiency in operations of the entire Cosmo Oil Group.

### (2) Outline of Accounting Process Execute

The above transaction was accounted for as a common control transaction based on the "Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on December 26, 2008) and the "Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on December 26, 2008).

Therefore, the Company recorded a gain on extinguishment of tie-in shares as extraordinary income for the difference amount of ¥27 million between the difference between assets and liabilities of Cosmo Petroleum Gas Co., Ltd. received by the Company at the appropriate book value recorded on the day before the day of the merger, and the appropriate book value of the shares of the dissolved subsidiary (tie-in shares) owned by the Company immediately prior to the merger in the FY2010 financial statements of the Company.

## 12. Other Note

The Company recorded the amount of losses attributable to the Great East Japan Earthquake that occurred in March 2011 as loss on disaster in the section of extraordinary loss of the Statement of Income for FY2010, with the breakdown of major items including:

Cost for removal of damaged assets, etc.	¥2,043million
Cost for disaster relief support for victimized business partners and employees, etc.	¥1,857million
Cost for restoration of stricken assets, etc.	¥1,158million

The amount of loss on disaster above includes ¥4,126million transferred to the provision for loss on disaster.



**Accounting Auditors' Audit Report**  
**concerning the Consolidated Financial Statements: Full Copy**

**Independent Auditors' Audit Report**

May 6, 2011

To the Board of Directors,  
COSMO OIL CO., LTD.

KPMG AZSA LLC

Designated Limited Liability and  
Engagement Partner,

Certified Public Accountant

Naoto Yokoi

Seal

Designated Limited Liability and  
Engagement Partner,

Certified Public Accountant

Masahiko Kobayashi

Seal

Designated Limited Liability and  
Engagement Partner,

Certified Public Accountant

Hiroshi Takasaki

Seal

In accordance with Article 444, Paragraph 4 of the Corporate Law, we, the audit corporation, audited the consolidated financial statements, that is, the consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets and the notes to consolidated financial statements of the Company for the consolidated fiscal term from April 1, 2010 to March 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the consolidated financial statements.

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

These consolidated financial statements are in accordance with auditing standards generally accepted in Japan and they present fairly the financial position and the results of operations in every material matter which consists of COSMO OIL CO., LTD. and its subsidiaries for the period of the consolidated financial statements of the Group.

**Additional Information**

As described in notes changes in accounting principles and processing and representation methods adopted to prepare the consolidated financial statements, the Company adopted the "Accounting Standard for Asset Retirement Obligations," effective from the consolidated fiscal term under review. In addition, effective from the consolidated fiscal term under review, some of the Company's consolidated subsidiaries adopted the "Accounting Standard for Measurement of Inventories" and changed the valuation method for inventories from the last-in, first-out (LIFO) method to the weighted average method.

Our firm and engagement partners have no interest in the Company which must be disclosed pursuant to the provisions of the Certified Public Accountants Law.

- END -

**Accounting Auditors' Audit Report**  
**concerning the Non-consolidated Financial Statements: Full Copy**

**Independent Auditors' Audit Report**

May 6, 2011

To the Board of Directors,  
COSMO OIL CO., LTD.

KPMG AZSA LLC

Designated Limited Liability and Engagement Partner,,		Seal
Certified Public Accountant	Naoto Yokoi	
Designated Limited Liability and Engagement Partner,,		Seal
Certified Public Accountant	Masahiko Kobayashi	
Designated Limited Liability and Engagement Partner,		Seal
Certified Public Accountant	Hiroshi Takasaki	

In accordance with Article 436, Paragraph 2 Item 1 of the Corporate Law, we, the audit corporation audited the non-consolidated financial statements, that is, the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements of changes in net assets and the notes to non-consolidated financial statements and supplementary schedules of the Company for the 105th fiscal term from April 1, 2010 to March 31, 2011. These non-consolidated financial statements and supplementary schedules are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the non-consolidated financial statements and the supplementary schedules based on our audit.

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

These non-consolidated financial statements and supplementary schedules are in accordance with auditing standards generally accepted in Japan and they present fairly the financial position and the results of operations in every material matter for the period of the non-consolidated financial statements.

**Additional Information**

As described in Notes to Items regarding Significant Accounting Policies in notes to non-consolidated financial statements, the Company adopted the "Accounting Standard for Asset Retirement Obligations," effective from the fiscal term under review.

Our firm and engagement partners have no interest in the Company which must be disclosed pursuant to the provisions of the Certified Public Accountants Law.

- END -

## Board of Corporate Auditors' Audit Report: Full Copy

### Audit Report

The Board of Corporate Auditors, based on the audit reports made by each Corporate Auditor concerning the execution of duties by Directors for the 105th fiscal term from April 1, 2010 to March 31, 2011, prepared this Audit Report and hereby submit it as follows:

#### **1. The Methods and Details of the Audit Conducted by the Corporate Auditors and the Board of Corporate Auditors**

The Board of Corporate Auditors determined auditing policies and allocation of duties, received reports from each Corporate Auditor concerning the implementation and the results of the audits, obtained reports on business operations from Directors and other relevant persons as well as the Accounting Auditors concerned, and requested explanations as necessary.

In accordance with the audit standards for the Corporate Auditors as established by the Board of Corporate Auditors, the auditing policies, the audit execution plan and allocation of duties, each Corporate Auditor communicated Directors, Internal Audit Department as well as other employees, committed to gather information and develop an audit environment, attended the meetings of the Board of Directors and other significant meetings; obtained reports on business operations from Directors and others; requested explanation as necessary; reviewed documents which record approval of material matters; conducted investigations regarding the status of the business operations and assets of the head office and other major offices.

In addition, the Corporate Auditors received reports as needed, requested explanation as necessary from Directors and others, and express an opinion concerning the establishment and operation of the system (the internal control system) implemented based on the corporate resolution concerning the implementation of system set forth in the Article 100, Paragraph 1 and 3 of the Ordinance for Enforcement of Companies Act and required to ensure the execution of duties by Directors described in the Business Report in accordance with related laws, regulations and the Articles of Incorporation of the Company. With respect to subsidiaries, we communicated and exchanged information with Directors, Auditors, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.

Based on the methods as described above, the Board of Corporate Auditors deliberated the Business Report and supplementary schedules for the period under review.

Furthermore, the Corporate Auditors monitored and confirmed if the Accounting Auditors holding independent position and performing appropriate audit received reports on auditing operations from the Accounting Auditors; and requested explanation as necessary. Also, the Corporate Auditors received a report from the Accounting Auditors that the Company implemented the "system to ensure appropriate execution of duties" (set forth in Article 131 of the Company's Calculation Rules) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council, October 28, 2005) and others, and requested explanation as necessary.

Based on the methods as described above, the Board of Corporate Auditors deliberated the non-consolidated financial statements (the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements of changes in net assets and the notes to non-consolidated financial statements) and supplementary schedules and the consolidated financial statements. (the consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets and the notes to consolidated financial statements for the period under review.)

## 2. Results of Audit

- (1) Audit results of Business Report and other documents concerned
  1. The Business Report and supplementary schedules comply with the laws and regulations and with the Articles of Incorporation and correctly represents the company status.
  2. The business activities performed by the Directors were correct and did not seriously violate the laws, regulations, or the Articles of Incorporations.
  3. The corporate resolution concerning the internal control system is fair and reasonable. There are not matters to be pointed out for the Business Report and execution of duties by Directors regarding the internal control system.
- (2) Audit results of the non-consolidated financial statements and supplementary schedules  
The auditing methods and results of the Accounting Auditors, KPMG AZSA LLC, are fair and reasonable.
- (3) Audit results of the consolidated financial statements  
The auditing methods and results of the Accounting Auditors, KPMG AZSA LLC, are fair and reasonable.

May 6, 2011

COSMO OIL CO., LTD. Board of Corporate Auditors

Corporate Auditor	Makoto Suzuki	Seal
Corporate Auditor	Hirokazu Ando	Seal
Corporate Auditor	Hideo Suzuki	Seal
Auditor	Hajime Miyamoto	Seal
Auditor	Yoshitsugu Kondo	Seal

(Note) Corporate Auditor Hirokazu Ando, Auditor Hajime Miyamoto and Auditor Yoshitsugu Kondo are Outside Auditors as stipulated in Article 2, Item 16 and Article 335, Paragraph 3 of the Corporation Law.

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