

● Message from the Management

Report on Consolidated Financial and Operating Results for the First Half of Fiscal Year 2009 (Ended September 30, 2009)



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We greatly appreciate all the support you have extended to us in our day-to-day operations and are pleased to report the overview of financial and operating results for the first six months of Fiscal Year 2009 (from April 1, 2009 to September 30, 2009) as follows.

Overview of the First Half of Fiscal Year 2009

The Japanese economy for the first six months of FY2009 was beginning to show a sign of positive outlook, as it was driven by the recovery of emerging markets centering on China and India, resulting in progress being made in inventory adjustments at major export-oriented manufacturers, while the environment still remained difficult for corporate capital spending and employment as well as individual consumption.

As for the business environment surrounding

Cosmo Oil, the average price of crude oil handled by the Company was at US\$60.80 a barrel for the first half year from April to September 2009, down US\$56.21 a barrel from the same period of 2008. The Japanese yen stood at ¥96.33 per US\$ on the average for the first half year, up ¥9.04 from the same period of FY2008. The fuel oil sales volume in Japan at Cosmo Oil for the first half year reduced due to the impact of the recession, representing 98.1% of the same period of FY2008.

During the first half of FY2009, in the petroleum business, a drop in crude oil prices from the first half of FY2008 slackened product market conditions as compared with the first half of FY2008. The sales volume of gasoline and jet fuel oil remained almost unchanged from the first half of FY2008, while the economic recession adversely affected the freight transportation sector, reducing the sales volume of diesel fuel oil, as well as that of heavy fuel oil A for industry and of heavy fuel oil C for power generation. The inventory valuation impact brought cost of sales down but this positive effect was offset mainly by aggravated market conditions,

Consolidated Operating Highlights

(Unit: billion yen)

	1H FY2009	Change from 1H FY2008
Net sales	1,141.9	-872.6
Operating income	15.6	-50.3
Impact of the inventory valuation	41.4	6.2
Consolidated Operating Income (Excluding Inventory Valuation Impact)	-25.8	-56.5
Net income	5.2	-25.3

resulting in lower profit in the petroleum business than the first half of FY2008. The petrochemical business recorded lower profit, reflecting the lower sales volume mainly due to the impact of the recession, and deteriorated market conditions. The oil exploration and production business also recorded lower profit, mainly reflecting lower crude oil prices.

As a result, consolidated net sales for the first half of FY2009 were ¥1,141.9 billion (down ¥872.6 billion from the same period of FY2008), consolidated operating income of ¥15.6 billion (down ¥50.3 billion), and consolidated net income of ¥5.2 billion (down ¥25.3 billion).

As for the consolidated financial position of Cosmo Oil as of September 30, 2009, total assets were ¥1,410.0 billion, down ¥30.4 billion from March 31, 2009, mainly reflecting increased inventories due to higher crude oil prices, with decreased cash and cash equivalents primarily due to tax payments and decreased accounts receivable due to the lower sales volume.

Net assets were ¥351.5 billion, up ¥4.1 billion from March 31, 2009, and the net worth ratio was 23.5%, up 0.7% points from March 31, 2009.

As for consolidated cash flows as of September 30, 2009, net cash used in operating

activities amounted to ¥40.3 billion, reflecting decreased funds mainly due to increased inventories triggered by crude oil price hikes starting from April 2009. Net cash used in investing activities amounted to ¥54.2 billion, mainly reflecting payments due to fixed asset acquisitions. Net cash provided by financing activities amounted to ¥13.0 billion, mainly reflecting increased borrowings to finance capital spending. As a result, cash and cash equivalents as of September 30, 2009 amounted to ¥79.5 billion, down ¥80.4 billion from March 31, 2009.

Outlook for Fiscal Year 2009

As for the outlook for the full year of FY2009 (from April 1, 2009 to March 31, 2010), the Company has changed the previous forecast released on May 7, 2009 by taking higher crude oil prices, a delay in the recovery of oil product markets and other factors, as compared with the previous forecast, into consideration. The updated forecast includes consolidated net sales for FY2009 that are expected to be ¥2,600.0 billion (up ¥300.0 billion from the previous forecast), consolidated operating income of ¥58.0 billion (down ¥27.0 billion), and consolidated net income of ¥20.0 billion (down ¥13.0 billion). Total dividends of ¥8 per share are expected for the year.

We sincerely appreciate your patronage and hope that your support may long continue.

Outlook for FY2009

(Announced on November 4, 2009)

Full Year (April 1, 2009 ~ March 31, 2010)

(Unit: billion yen)

Consolidated	
Net sales	2,600.0
Operating income	58.0
Net income	20.0

Assumptions for crude oil price and exchange rate:

The second half of FY2009

(from October 1, 2009 to March 31, 2010):

Crude oil price (Dubai): USD70.00/bbl; Exchange rate: 90.00 yen/USD

Information about Appropriate Use of Business Outlook

The forward-looking statements for the business outlook herein were prepared based on information available as of November 4, 2009, the issue date of this report. Thus, actual results may differ materially from the outlook due to a variety of factors beyond our control.