



February 3, 2015

# Consolidated Financial Results for the Third Quarter of Fiscal Year 2014 (From April 1, 2014 to December 31, 2014) [Japan GAAP]

Company Name: **Idemitsu Kosan Co., Ltd.** (URL <http://www.idemitsu.com>)

Company Code: 5019, Shares listed on: Tokyo Stock Exchange

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Scheduled date of filing of quarterly securities report: February 13, 2015

Scheduled date of commencement of dividend payments: —

Supplementary materials for the quarterly financial results: Yes

Quarterly financial results presentation: Yes (for institutional investors and analysts)

(Figures less than ¥1 million are rounded off)

## 1. Consolidated Financial Results for the Third Quarter of FY2014 (From April 1, 2014 to December 31, 2014)

### (1) Consolidated operating results

(Percentage figures represent changes from the corresponding previous period)

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
3Q FY2014	3,578,352	(2.2)	(40,739)	—	(42,134)	—	(56,611)	—
3Q FY2013	3,659,278	15.9	81,821	48.8	79,730	57.9	42,713	160.7

Notes: Comprehensive income 3Q FY2014 ¥ (52,147) million — % 3Q FY2013 ¥ 58,887 million 167.5 %

	Net income per share	Diluted net income per share
	¥	¥
3Q FY2014	(353.93)	—
3Q FY2013	267.03	267.02

(\*) The Company conducted a 1:4 stock split on its common shares with the effective date of January 1, 2014. Net income per share and diluted net income per share are calculated under the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2014.

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	¥million	¥million	%
3Q FY2014	2,991,315	681,126	21.3
FY2013	2,995,063	743,786	23.5

Reference: Total equity 3Q FY 2014 ¥ 636,743 million FY 2013 ¥ 702,428 million

## 2. Dividends

	Cash dividends per share				
	As of Jun.30	As of Sep.30	As of Dec.31	As of Mar.31	Total
	¥	¥	¥	¥	¥
FY2013	—	100.00	—	25.00	—
FY2014	—	25.00	—	—	—
FY2014 (Forecasts)	—	—	—	25.00	50.00

Notes: Revisions of the forecasts of cash dividends since the latest announcement: None

(\*) The Company conducted a 1:4 stock split on its common shares with the effective date of January 1, 2014. As such, the stock split is not reflected in the calculation of dividends as of September 30, 2013.

## 3. Forecasts of Consolidated Financial Results for FY2014 (From April 1, 2014 to March 31, 2015)

(Percentage figures represent changes from the corresponding previous periods)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	¥million	%	¥million	%	¥million	%	¥million	%	¥
FY2014	4,540,000	(9.8)	(120,000)	—	(122,000)	—	(98,000)	—	(612.68)

Notes: Revisions of the forecasts of consolidated financial results since the latest announcement: Yes

\* Notes

- (1) Changes of number of material consolidated subsidiaries during the nine months ended December 31, 2014: **None**
- (2) Application of the accounting method peculiar to the preparation of the quarterly financial statements: **Yes**
- (3) Changes in accounting policies, accounting estimates and restatement
  - a) Changes in accounting policies arising from revision of accounting standards: **Yes**
  - b) Changes arising from other factors: **None**
  - c) Changes in accounting estimates: **None**
  - d) Restatement: **None**
- (4) Number of shares issued (common stock)
  - a) Number of shares issued (including treasury stock)

As of December 31, 2014: 160,000,000	As of March 31, 2014: 160,000,000
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  - b) Number of shares of treasury stock

As of December 31, 2014: 46,736	As of March 31, 2014: 46,696
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  - c) Weighted average number of shares outstanding during the period

Nine months ended December 31, 2014: 159,953,246
Nine months ended December 31, 2013: 159,958,133

The Company conducted a 1:4 stock split on its common shares with the effective date of January 1, 2014. The above information is calculated under the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2014.

\*1 This document is out of the scope of the quarterly review procedures under the Financial Instruments and Exchange Act. The quarterly review procedures for the financial statements under this Act have been completed as of the date of disclosure of this document.

\*2 The financial forecasts above are based on information available and assumptions as of the date of publication of this document. Actual operating results may differ from the forecasts due to various factors. Additionally, for the assumptions used for the forecasts of the above, please refer to page 4.

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# 1. Qualitative Information on the Consolidated Operating Results for the Third Quarter of FY 2014

## (1) Explanation of Operating Results

The total domestic demand for petroleum products for the nine months ended December 31, 2014 dropped compared with the same period of the previous year, affected by such factors as temporarily decreased purchases following the increase in consumption taxes in April, more wet weather conditions in the summer, and lower demand for fuel oils for power generation.

Dubai crude oil prices climbed to a level exceeding \$110/bbl temporarily towards the middle of June, due partly to the intensified geopolitical risks. However, subsequently they turned downward due to a combination of expectations for softer demand owing to the worsening economic outlook for China and European countries, and increased concerns about oversupply caused by a recovery in Libya's oil production and increased oil production in the U.S. Following the OPEC decision in late November 2014 not to cut production, the pace of the decline had accelerated and the prices plunged to nearly \$50/bbl at the end of December. Consequently, the average crude oil prices during the nine months ended December 31, 2014 declined by \$10.6/bbl compared with the same period in the prior year to \$94.0/bbl.

Demand for petrochemical products for the nine months ended December 31, 2014 was consistent with the same period of the preceding year, while the export environment from Japan has improved due partly to the weakened Japanese yen. The price for naphtha, a petrochemical raw material, dropped by \$15/ton against the same period of the preceding year to \$913/ton.

(Crude oil price, naphtha price and exchange rate)

	Nine months ended December 31, 2013	Nine months ended December 31, 2014	Change	
Dubai Crude Oil (\$/bbl)	104.6	94.0	(10.6)	(10.1) %
Naphtha (\$/ton)	928	913	(15)	(1.6) %
Exchange Rate (¥/\$)	100.4	107.9	+7.5	+7.5%

The Idemitsu Group's net sales for the nine months ended December 31, 2014 was ¥3,578.4 billion, which is at a similar level of the same period of the prior year, representing a decrease of 2.2%.

Operating loss was ¥40.7 billion, representing a decline of ¥122.6 billion compared with the corresponding period of the previous year, mainly due to substantial valuation losses on inventories associated with a plunge in crude oil prices. Net non-operating expense decreased due partially to increased equity in earnings of affiliates and ordinary loss was ¥42.1 billion, a decline of ¥121.9 billion from the same period of the previous year.

Net loss for the nine months ended December 31, 2014 was ¥56.6 billion, a decline of ¥99.3 billion against the corresponding period of last year, largely due to the increased impairment loss of the resources business and to the insurance proceeds the Company recorded during the nine months ended December 31, 2013.

The performance of each business segment for the nine months ended December 31, 2014 is as follows:

As to annual reporting periods, domestic subsidiaries use March 31 as their balance sheet date whereas overseas subsidiaries use December 31 as their balance sheet date, except for certain subsidiaries. As such, the following performance of the business segments includes the operating results of overseas subsidiaries for the nine months ended September 30, 2014, and those of domestic subsidiaries for the nine months ended December 31, 2014.

In addition, as stated in “3. (3) 3) Consolidated Segment Information,” net sales and operating income of the coal sales business are included in the resources segment from the second quarter of fiscal 2014, which were previously included in the petroleum products segment. The segment results for the nine months ended December 31, 2013 also reflect the current segmentation.

[Petroleum products segment]

Net sales of the petroleum products segment for the nine months ended December 31, 2014 were ¥2,865.5 billion, a decrease of 3.6% compared with the same period of the previous year, due partly to lower crude oil prices.

Operating loss was ¥49.5 billion, a decline of ¥81.6 billion compared with the corresponding period of the previous year, largely due to valuation losses on inventories despite increased product margins.

[Petrochemical products segment]

Net sales of the petrochemical products segment for the nine months ended December 31, 2014 were ¥499.5 billion, an increase of 2.9% from the same period of fiscal 2013, due partly to hikes in naphtha prices on a customs clearance basis due to the weaker Japanese yen.

Operating loss was ¥8.5 billion, representing a decline of ¥41.0 billion against the corresponding period of the prior year, primarily affected by contracted product margins due to declined market prices for paraxylene and styrene monomer along with increased costs for naphtha.

[Resources segment]

(Oil exploration and production business)

Net sales of the oil exploration and production business for the nine months ended December 31, 2014 was ¥69.8 billion, down 0.9% compared with the same period of the preceding year, due mainly to a combination of lower crude oil prices and delayed shipment of some of the Company's product produced in the third quarter of fiscal 2014. In addition, due to other factors such as increased oil exploration costs, operating income was ¥15.4 billion, down 39.6% compared with the nine months ended December 31, 2013.

(Coal business and others)

Net sales of the coal business and others for the nine months ended December 31, 2014 increased by 5.7% against the same period of the previous year to ¥102.5 billion, mainly due to an increase in sales volume despite lower coal sales prices. In addition, assisted by cost reduction efforts, operating income was ¥1.3 billion, an improvement of ¥6.9 billion compared with the corresponding period of fiscal 2013.

As a result, total net sales of the resources segment increased by 2.9% to ¥172.3 billion, and operating income decreased by 16.4% to ¥16.7 billion from the same period of last year.

[Other segments]

Net sales of the other segments for the nine months ended December 31, 2014 increased by 16.5% from the same period of last year to ¥41.1 billion, and operating income increased by 449.7% to ¥2.5 billion compared with the same period of the previous year.

(2) Explanation of Financial Position

Total assets as of December 31, 2014 decreased by ¥3.7 billion from the end of the preceding fiscal year to ¥2,991.3 billion, due mainly to decreases in inventories, and cash and deposits despite increases in accounts receivable-trade, and property, plant and equipment. Total liabilities as of December 31, 2014 increased by ¥58.9 billion from the end of the preceding fiscal year to ¥2,310.2 billion, due mainly to an increase in interest-bearing debt amounting to ¥1,110.3 billion as of December 31, 2014, which is partly offset by a decrease in accounts payable-trade.

Total net assets as of December 31, 2014 was ¥681.1 billion, a decrease of ¥62.7 billion from the end of the preceding fiscal year due mainly to a decrease in retained earnings as a result of recording net loss. The equity ratio as of December 31, 2014 was 21.3% compared to 23.5% as of March 31, 2014.

(3) Explanation of Forecasts of Consolidated Financial Results for FY2014

With respect to the forecasts of consolidated financial results for fiscal 2014, the Company revised the forecasts released on November 4, 2014, taking into consideration the consolidated operating results for the nine months ended December 31, 2014 and the future prospects. For details of the relevant expectations, please refer to the “Announcement on the Reporting of Extraordinary Losses and Revisions to Earnings Estimates” that was released today.

## 2. Summary Information

### (1) Changes in the Material Subsidiaries

None

### (2) Application of the Accounting Method Peculiar to the Preparation of the Quarterly Financial Statements

Income taxes are calculated by multiplying the income before income taxes and minority interests for the nine months ended December 31, 2014 by the estimated effective tax rate that is reasonably estimated for income before income taxes and minority interests for the fiscal year that includes the current quarter.

However, if the calculation using the relevant estimated effective tax rate leads to significantly irrational results, income taxes are calculated by multiplying the quarterly income before income taxes and minority interests by the effective statutory tax rate, after adjusting important differences that do not constitute temporary differences.

### (3) Changes of Accounting Policies, Changes in Accounting Estimates and Restatement (Change in Accounting Policies)

Effective April 1, 2014, the Company adopted certain provisions prescribed in paragraph 35 of Accounting Standard Board of Japan ("ASBJ") Statement No.26, "Accounting Standard for Retirement Benefits" and paragraph 67 of ASBJ Guidance No.25, "Guidance on Accounting Standard for Retirement Benefits." In accordance with those provisions, the Company changed the method of attributing expected benefit to periods from a straight line-basis to a benefit formula basis. In addition, the Company changed the determination of discount rates from using rates determined by reference to the average remaining service period of employees to using primarily multiple rates determined for each estimated term of retirement benefit.

In accordance with a transitional provision prescribed in paragraph 37 of ASBJ Statement No. 26, the Company accounted for the effect from those changes as an adjustment of retained earnings as of April 1, 2014.

As a result, liability for employees' retirement benefits as of April 1, 2014 increased by ¥7,065 million and retained earnings as of April 1, 2014 decreased by ¥4,541 million. The effect of those changes on the results of operations was not material.

### 3. Consolidated Financial Statements for the Third Quarter of FY2014

#### (1) Consolidated Quarterly Balance Sheets

(Unit: ¥Million)

	FY 2013 (As of March 31, 2014)	3rd Quarter of FY2014 (As of December 31, 2014)
<b>Assets</b>		
Current assets:		
Cash and deposits	161,522	129,486
Notes and accounts receivable, trade	418,883	459,685
Inventories	717,368	639,746
Other	126,468	148,420
Less: Allowance for doubtful accounts	(1,774)	(1,604)
Total current assets	1,422,469	1,375,734
Fixed assets:		
Property, plant and equipment:		
Land	591,503	591,659
Other, net	496,107	516,023
Total property, plant and equipment	1,087,611	1,107,683
Intangible fixed assets:		
Goodwill	39,421	38,024
Other	14,905	14,938
Total intangible fixed assets	54,327	52,963
Investments and other assets:		
Oil field premium assets	97,477	97,159
Other	333,414	357,974
Less: Allowance for doubtful accounts	(237)	(200)
Total investments and other assets	430,654	454,934
Total fixed assets	1,572,593	1,615,580
Total assets	2,995,063	2,991,315
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable, trade	438,594	396,923
Short-term loans payable	434,476	431,559
Commercial paper	59,995	95,992
Accounts payable, other	234,872	295,785
Income taxes payable	18,907	9,359
Provision for bonuses	6,907	2,974
Other	108,285	118,907
Total current liabilities	1,302,039	1,351,500
Non-current liabilities:		
Bonds payable	45,000	65,000
Long-term loans payable	539,546	517,725
Liability for employees' retirement benefits	13,071	18,519
Reserve for repair work	23,267	30,228
Asset retirement obligations	55,422	56,169
Oil field premium liabilities	100,804	101,291
Other	172,124	169,752
Total non-current liabilities	949,236	958,687
Total liabilities	2,251,276	2,310,188



(Unit: ¥Million)

	FY 2013 (As of March 31, 2014)	3rd Quarter of FY2014 (As of December 31, 2014)
Net assets		
Shareholders' equity:		
Common stock	108,606	108,606
Capital surplus	71,131	71,131
Retained earnings	359,934	292,776
Treasury stock	(130)	(130)
Total shareholders' equity	539,542	472,384
Accumulated other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	4,523	8,007
Deferred gains (losses) on hedging activities, net	(1,196)	(6,178)
Surplus from land revaluation	147,714	147,907
Foreign currency translation adjustments	12,016	14,810
Defined retirement benefit plans	(172)	(186)
Total accumulated other comprehensive income	162,886	164,359
Minority interests in consolidated subsidiaries	41,358	44,383
Total net assets	743,786	681,126
Total liabilities and net assets	2,995,063	2,991,315

## (2) Consolidated Quarterly Statements of Income and Comprehensive Income

## 1) Consolidated Quarterly Statements of Income

(Unit: ¥Million)

	3rd Quarter of FY2013 (From April 1, 2013 to December 31, 2013)	3rd Quarter of FY2014 (From April 1, 2014 to December 31, 2014)
Net sales	3,659,278	3,578,352
Cost of sales	3,383,814	3,406,601
Gross profit	275,464	171,751
Selling, general and administrative expenses	193,642	212,490
Operating income (loss)	81,821	(40,739)
Non-operating income:		
Interest income	1,261	962
Dividend income	3,714	2,675
Equity in earnings of nonconsolidated subsidiaries and affiliates, net	5,447	5,806
Other	3,323	2,257
Total non-operating income	13,747	11,702
Non-operating expenses:		
Interest expense	9,525	9,139
Loss on foreign exchange, net	3,926	1,971
Other	2,387	1,986
Total non-operating expenses	15,838	13,097
Ordinary income (loss)	79,730	(42,134)
Extraordinary income:		
Gain on sales of fixed assets	670	519
Insurance proceeds	20,630	—
Gain on transfer of business	117	1,003
Other	3,199	85
Total extraordinary income	24,617	1,607
Extraordinary loss:		
Impairment loss on fixed assets	16,646	28,856
Loss on sales of fixed assets	175	126
Loss on disposals of fixed assets	1,941	3,733
Other	948	1,044
Total extraordinary loss	19,711	33,761
Income (loss) before income taxes and minority interests	84,636	(74,287)
Income taxes	37,136	(21,112)
Net income (loss) before minority interests	47,499	(53,175)
Minority interests	4,786	3,436
Net income (loss)	42,713	(56,611)

## 2) Consolidated Quarterly Statements of Comprehensive Income

(Unit: ¥Million)

	3rd Quarter of FY2013 (From April 1, 2013 to December 31, 2013)	3rd Quarter of FY2014 (From April 1, 2014 to December 31, 2014)
Net income (loss) before minority interests	47,499	(53,175)
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	3,203	2,995
Deferred gains (losses) on hedging activities, net	685	(5,227)
Foreign currency translation adjustments	6,484	45
Defined retirement benefit plans	—	(11)
Share of other comprehensive income in equity method affiliates	1,013	3,225
Total other comprehensive income	11,387	1,027
Comprehensive income	58,887	(52,147)
Comprehensive income attributable to:		
Owners of the parent	52,734	(55,278)
Minority interests	6,152	3,131

(3) Notes to the Consolidated Financial Statements

1) Notes on the Assumption of a Going Concern

None

2) Notes on Significant Changes in Shareholders' Equity

None

3) Consolidated Segment Information

Third Quarter of FY2013 (From April 1, 2013 to December 31, 2013)

(a) Net sales and income or loss by reportable segment

(Unit: ¥Million)

	Reportable segment				Others	Total	Reconciliation	Consolidated
	Petroleum products	Petro-chemical products	Resources	Total				
Net sales:								
Net sales to outside customers	2,971,208	485,470	167,355	3,624,034	35,243	3,659,278	—	3,659,278
Inter-segment	1,697	2,214	14	3,926	2,298	6,225	(6,225)	—
Total	2,972,906	487,685	167,369	3,627,961	37,541	3,665,503	(6,225)	3,659,278
Operating income	32,186	32,526	19,989	84,702	452	85,154	(3,333)	81,821

Notes:

1. The segment "Others" refers to the total of other business segments that are not included in the reportable segments, including engineering businesses, insurance businesses, electronic materials businesses, agricultural biotechnology businesses and renewable energy businesses.
2. The amount of reconciliation for the operating income mainly represents research and development costs, which do not belong to reportable segments.
3. The operating income of the reportable segments was reconciled to the amount of operating income in the consolidated quarterly statement of income.

(b) Impairment loss on fixed assets and goodwill by reportable segment

(Significant impairment loss on fixed assets)

The Company recorded an impairment loss of ¥14,506 million for certain oil field assets belonging to the resources segment.

Third Quarter of FY2014 (From April 1, 2014 to December 31, 2014)

(a) Net sales and income or loss by reportable segment

(Unit: ¥Million)

	Reportable segment				Others	Total	Reconciliation	Consolidated
	Petroleum products	Petro-chemical products	Resources	Total				
Net sales:								
Net sales to outside customers	2,865,488	499,547	172,255	3,537,291	41,060	3,578,352	—	3,578,352
Inter-segment	8,399	4,499	8	12,907	3,163	16,071	(16,071)	—
Total	2,873,888	504,046	172,264	3,550,199	44,224	3,594,424	(16,071)	3,578,352
Operating income (loss)	(49,452)	(8,509)	16,718	(41,243)	2,487	(38,755)	(1,983)	(40,739)

Notes:

1. The segment “Others” refers to the total of other business segments that are not included in the reportable segments, including engineering businesses, insurance businesses, electronic materials businesses, agricultural biotechnology businesses and renewable energy businesses.
2. The amount of reconciliation for the operating income or loss mainly represents research and development costs, which do not belong to reportable segments.
3. The operating income or loss of the reportable segments was reconciled to the amount of operating loss in the consolidated quarterly statement of income.

(b) Changes in the reportable segment

The Idemitsu Group assessed that further enhancement of the coal business in the total value chain from the supply to sales and strengthening of the operational efficiency were required for the Group in response to changes in the environment surrounding the coal business, and consequently changed its business organization on July 1, 2014 in order to operate the coal mining business and coal sales business as a whole.

As a result, the coal sales business is included in the resources segment from the second quarter of fiscal 2014, which was previously included in the petroleum products segment.

In addition, segment information for the nine months ended December 31, 2013 reflects the current segmentation.

(c) Impairment loss on fixed assets and goodwill by reportable segment

(Significant impairment loss on fixed assets)

The Company recorded an impairment loss of ¥26,686 million on certain of oil field assets and assets in coal mines belonging to the resources business.