February 2, 2016

Consolidated Financial Results for the Third Quarter of Fiscal Year 2015 (From April 1, 2015 to December 31, 2015) [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 12, 2016
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 FY2015 (From April 1, 2015 to December 31, 2015)

(1) Consolidated operating results

(Percentage figures represent changes from the corresponding previous period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	¥million	%	¥million	%	¥million	%	¥million	%
3Q FY2015	2,796,834	(21.8)	(18,175)	―	(20,826)	―	(26,982)	―
3Q FY2014	3,578,352	(2.2)	(40,739)	―	(42,134)	―	(56,611)	―

Notes: Comprehensive income 3Q FY2015 ¥ (63,832) million ― % 3Q FY2014 ¥ (52,147) million ― %

	Net income per share	Diluted net income per share
	¥	¥
3Q FY2015	(168.69)	―
3Q FY2014	(353.93)	―

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	¥million	¥million	%
3Q FY2015	2,599,797	560,293	20.1
FY2014	2,731,001	630,384	21.5

Reference: Total equity 3Q FY 2015 ¥ 521,751 million FY 2014 ¥ 587,249 million

2. Dividends

	Cash dividends per share				
	As of Jun.30	As of Sep.30	As of Dec.31	As of Mar.31	Total
	¥	¥	¥	¥	¥
FY2014	―	25.00	―	25.00	50.00
FY2015	―	25.00	―		
FY2015 (Forecasts)				25.00	50.00

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

3. Forecasts of Consolidated Financial Results for FY2015 (From April 1, 2015 to March 31, 2016)

(Percentage figures represent changes from the corresponding previous period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	¥million	%	¥million	%	¥million	%	¥million	%	¥
FY2015	3,750,000	(19.0)	3,000	―	2,000	―	(13,000)	―	(81.27)

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, 2015: **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, 2015: 160,000,000 As of March 31, 2015: 160,000,000
b) Number of shares of treasury stock
As of December 31, 2015: 46,956 As of March 31, 2015: 46,776
c) Weighted average number of shares outstanding during the period
Nine months ended December 31, 2015: 159,953,192
Nine months ended December 31, 2014: 159,953,246

*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.

Contents of the Attachment

1. Qualitative Information on the Consolidated Operating Results for the Third Quarter of FY 2015

(1) Explanation of Operating Results

The overall domestic demand for petroleum products during the nine months ended December 31, 2015 decreased compared with the same period of fiscal 2014, affected primarily by lower demand for fuels for heating than the previous year due to a mild winter, while domestic demand for fuels for transportation, such as gasoline, was in line with the corresponding period of the preceding year.

Dubai crude oil prices were on an upward trend around spring. However, they turned to a downward trend from summer mainly owing to concerns over the outlook of the Chinese economy triggered by the devaluation of the Chinese Yuan and no signs to cut oil production by OPEC. Consequently, the average crude oil prices for the nine months ended December 31, 2015 decreased by $43.4/bbl from the same period last year to $50.6/bbl .

Demand for petrochemical products during the nine months ended December 31, 2015 was consistent with the same period of fiscal 2014. Domestic production had been steady, supported by reduced import volume due to the weaker Japanese Yen. The price for naphtha, a petrochemical raw material, was $520/ton, a decline of $393/ton from the same period last year.

(Crude oil price, naphtha price and exchange rate)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015	Change	
Dubai Crude Oil ($/bbl)	94.0	50.6	(43.4)	(46.2)%
Naphtha ($/ton)	913	520	(393)	(43.0)%
Exchange Rate (¥/$)	107.9	122.7	+14.8	+13.7%

The Idemitsu Group’s net sales for the nine months ended December 31, 2015 were ¥2,796.8 billion, down 21.8% from the same period last year, mainly due to decreased prices for crude oil.

Operating loss for the nine months ended December 31, 2015 was ¥18.2 billion, due mainly to the effect of inventory valuation caused by a decline in crude oil prices and reduced petroleum product margins. However, this represented an improvement of ¥22.6 billion from the same period last year, mainly assisted by reduced costs reflecting a drop in crude oil prices. Ordinary loss was ¥20.8 billion, an improvement of ¥21.3 billion from the same period last year.

Net extraordinary income improved compared with the same period of the preceding year, due mainly to gains on sales of fixed assets and affiliate stock, while the impairment loss on fixed assets in the resources businesses reflecting declines in crude oil prices was recorded. As a result, net loss attributable to owners of the parent was ¥27.0 billion, an improvement of ¥29.6 billion from the same period last year.

The performance of each business segment for the nine months ended December 31, 2015 is as follows:

As to quarterly reporting periods, domestic subsidiaries use December 31 as their balance sheet date whereas overseas subsidiaries use September 30 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, 2015, and those of domestic subsidiaries for the nine months ended December 31, 2015.

[Petroleum products segment]

Net sales of the petroleum products segment for the nine months ended December 31, 2015 were ¥2,181.8 billion, down 23.9% from the same period last year, due mainly to declines in crude oil prices.

Operating loss was ¥46.5 billion, due mainly to the effect of inventory valuation, an improvement of ¥3.0 billion from the same period last year, reflecting the fact that positive factors such as the cost reductions helped by lower crude oil prices more than offset negative factors such as the increased effect of inventory valuation and reduced product margins.

[Petrochemical products segment]

Net sales of the petrochemical products segment for the nine months ended December 31, 2015 were ¥399.7 billion, down 20.0% from the same period last year, due largely to declines in naphtha prices on a customs clearance basis.

Operating income was ¥30.0 billion, up ¥38.5 billion from the same period last year, helped by reduced costs due to lower prices for crude oil and naphtha.

[Resources segment]

(Oil exploration and production business)

Net sales of the oil exploration and production business for the nine months ended December 31, 2015 were ¥57.2 billion, down 18.0% from the same period last year, in large part resulting from a significant decline in crude oil prices. Operating loss was ¥2.9 billion, a decline of ¥18.3 billion from the same period last year, affected by a drop in crude oil prices, which was partially offset by the weaker currencies of commodity countries.

(Coal business and others)

Net sales of the coal business and others for the nine months ended December 31, 2015 were ¥107.7 billion, up 5.1% from the same period last year, mainly due to an increase in domestic sales volume despite lower coal prices. Operating loss was ¥1.1 billion, a decline of ¥2.3 billion from the same period last year, due mainly to declines in coal sales prices, which outweighed positive contributions from the weaker currencies of commodity countries and cost reductions.

As a result, total net sales of the resources segment were ¥165.0 billion, down 4.2% from the same period last year and operating loss was ¥3.9 billion, a decline of ¥20.6 billion from the same period last year.

[Other segments]

Net sales of the other segments for the nine months ended December 31, 2015 were ¥50.4 billion, up 22.7% from the same period last year and operating income was ¥4.9 billion, up ¥2.4 billion from the same period last year.

(2) Explanation of Financial Position

Total assets as of December 31, 2015 decreased by ¥131.2 billion from the end of fiscal 2014 to ¥2,599.8 billion, mainly due to decreases in inventories and oil field premium assets, reflecting the impact of lower crude oil prices. Total liabilities as of December 31, 2015 decreased by ¥61.1 billion from the end of fiscal 2014 to ¥2,039.5 billion, mainly due to decreases in accounts payable-trade and oil field premium liabilities, while interest-bearing debt remained at the same level, amounting to ¥1,013.1 billion,.

Total net assets as of December 31, 2015 decreased by ¥70.1 billion from the end of fiscal 2014 to ¥560.3 billion, mainly due to a decrease in foreign currency translation adjustments. The equity ratio was 20.1%, down from 21.5% at the end of fiscal 2014.

(3) Explanation of Forecasts of Consolidated Financial Results for FY2015

With respect to the forecasts of consolidated financial results for fiscal 2015, the Company revised the forecasts released on November 4, 2015, taking into consideration the consolidated operating results for the nine months ended December 31, 2015 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 for the nine months ended December 31, 2015 by the estimated effective tax rate that is reasonably estimated for income before income taxes 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 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, 2015, the Company adopted revised Accounting Standard Board of Japan (“ASBJ”) Statement No.21, "Accounting Standard for Business Combinations," revised ASBJ Statement No.22, "Accounting Standard for Consolidated Financial Statements," and revised ASBJ Statement No.7, “Accounting Standard for Business Divestitures.” In accordance with these standards, the Company changed the method of accounting whereby any difference arising from the changes in ownership interest in subsidiaries is accounted for as capital surplus as long as the parent retains control over its subsidiary and acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred. With respect to the business combinations occurring on or after April 1, 2015, the Company changed the accounting method whereby adjustments to the allocation of purchase costs using provisional amounts are retrospectively recognized in the consolidated financial statements for the period in which the business combination occurs. In addition, presentation of net income has been changed in the consolidated statement of income and minority interests have been changed to noncontrolling interests on the consolidated balance sheet. Comparative figures have been reclassified to reflect these changes.

The Company applies these revised standards to business combinations occurring on or after April 1, 2015 in accordance with certain transitional provisions prescribed in these standards.

The adoption of these revised standards has no impact on profit or losses.

(4) Additional Information

(Agreement to Purchase Showa Shell Sekiyu K.K. Share)

On July 30, 2015, the Company's board of directors meeting reached a resolution to purchase Showa Shell Sekiyu K.K. ("Showa Shell") shares with 33.3% voting rights from subsidiary companies of Royal Dutch Shell plc and a share purchase agreement has been entered into by between the Company and such subsidiary companies on the same day. The details are as follows:

(a) Names of sellers
The Shell Petroleum Company Limited
The Anglo-Saxon Petroleum Company Limited

(b) Overview of acquiree
i. Company name: Showa Shell Sekiyu K.K.
ii. Main business: oil business and energy solutions business
iii. Scale:
Capital: ¥ 34,197 million
Consolidated sales: ¥ 2,997,984 million (fiscal year ended December 31, 2014)

(c) Schedule for share transfer
The transfer of the shares is planned for the first half of 2016.
(Execution of the share transfer is contingent upon the completion of the Japan Fair Trade Commission's corporate merger review, potential merger reviews in a small number of other jurisdictions and other conditions.)

(d) Number of shares to be purchased, purchase price, and shareholding after purchase
Number of shares to be purchased: 125,261,200
Purchase price: ¥ 169,103 million (¥ 1,350 per share)
Shareholding after purchase: 33.3% of voting rights

(e) Method of funding share purchase
The share purchase is planned to be funded through borrowings.

(Execution of Memorandum of Understanding Regarding the Business Integration)

On November 12, 2015, the Company signed a Memorandum of Understanding for the Business Integration of Idemitsu Kosan Co.,Ltd. and Showa Shell Sekiyu K.K. (collectively the "Companies") (the "MoU") based on the spirit of equal partnership with Showa Shell.

The MoU has no binding effect and the Companies plan to consult with each other and separately execute a legally binding definitive agreement after taking necessary procedures including, among others, obtaining their board of directors' resolutions.

(a) Objectives of the Business Integration
The Companies have agreed to create an industry-leading player with an unparalleled competitive position by combining the strengths and management resources of the Companies. The new company (the "NewCo") will lead the effort to resolve various structural issues in the industry to improve the lives of Japanese citizens through more efficient and stable energy supplies.

(b) Method of the Business Integration

The Companies have set a merger as the basic structure of the Business Integration subject to further consideration and discussion, and will definitely agree on the method of the Business Integration.

(c) Schedule of the Business Integration

The schedule of the Business Integration will be discussed further, with the aim to commence due diligence of the Companies and their subsidiaries after the signing of the MoU, followed by the signing of a binding definitive agreement providing for the definitive details and terms of the Business Integration, approval at the shareholders meetings of both parties, and the launch of the NewCo between October 2016 and April 2017. However, if necessary, changes to the schedule may be made upon consultation between the Companies for certain reasons such as delays in the review process by the relevant competition law authorities, delays in the progress of post-merger integration preparation required for a smooth start of operations on Day 1, and for other reasons.

(d) Name of the New Company

The name of the NewCo is currently undetermined and is scheduled to be decided upon further discussion between the Companies.

(e) Location of the Head Office of the NewCo

The Companies have yet to decide the location of the NewCo’s head office, but are planning to find a location different from the current offices of the Companies by the effective date of the Business Integration or as soon as possible thereafter.

(f) Structure of the Board of Directors

While the structure of the board of directors will be decided upon further discussions between the Companies, representative directors and executive directors are expected to comprise an equal number of representatives from each company.

3. Consolidated Financial Statements for the Third Quarter of FY2015

(1) Consolidated Quarterly Balance Sheets

(Unit: ¥Million)

	FY 2014 (As of March 31, 2015)	3rd Quarter of FY2015 (As of December 31, 2015)
Assets		
Current assets:		
Cash and deposits	112,959	112,486
Notes and accounts receivable, trade	321,703	348,591
Inventories	513,801	445,039
Other	138,351	145,252
Less: Allowance for doubtful accounts	(1,874)	(2,163)
Total current assets	1,084,940	1,049,206
Fixed assets:		
Property, plant and equipment:		
Machinery and equipment, net	248,906	255,452
Land	589,485	586,694
Other, net	297,351	237,445
Total property, plant and equipment	1,135,743	1,079,591
Intangible fixed assets	25,213	23,707
Investments and other assets:		
Oil field premium assets	80,190	34,577
Other	405,103	412,803
Less: Allowance for doubtful accounts	(191)	(89)
Total investments and other assets	485,102	447,291
Total fixed assets	1,646,060	1,550,590
Total assets	2,731,001	2,599,797
Liabilities		
Current liabilities:		
Notes and accounts payable, trade	366,559	333,281
Short-term loans payable	376,525	317,653
Commercial paper	26,997	84,994
Accounts payable, other	232,565	269,744
Income taxes payable	6,061	4,918
Provision for bonuses	6,299	2,888
Other	112,609	99,717
Total current liabilities	1,127,619	1,113,197
Non-current liabilities:		
Bonds payable	65,000	65,000
Long-term loans payable	537,658	545,414
Liability for employees' retirement benefits	15,642	13,658
Reserve for repair work	26,530	25,241
Asset retirement obligations	93,813	87,619
Oil field premium liabilities	83,098	39,906
Other	151,253	149,464
Total non-current liabilities	972,997	926,306
Total liabilities	2,100,616	2,039,503

(Unit: ¥Million)

	FY 2014 (As of March 31, 2015)	3rd Quarter of FY2015 (As of December 31, 2015)
Net assets		
Shareholders' equity:		
Common stock	108,606	108,606
Capital surplus	71,131	71,131
Retained earnings	212,119	178,199
Treasury stock	(130)	(130)
Total shareholders' equity	391,727	357,807
Accumulated other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	9,920	9,714
Deferred gains (losses) on hedging activities, net	(7,896)	(11,930)
Surplus from land revaluation	157,460	157,552
Foreign currency translation adjustments	34,795	7,279
Defined retirement benefit plans	1,243	1,328
Total accumulated other comprehensive income	195,522	163,944
Noncontrolling interests	43,134	38,542
Total net assets	630,384	560,293
Total liabilities and net assets	2,731,001	2,599,797

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

1) Consolidated Quarterly Statements of Income

(Unit: ¥Million)

	3rd Quarter of FY2014 (From April 1, 2014 to December 31, 2014)	3rd Quarter of FY2015 (From April 1, 2015 to December 31, 2015)
Net sales	3,578,352	2,796,834
Cost of sales	3,406,601	2,609,112
Gross profit	171,751	187,722
Selling, general and administrative expenses	212,490	205,897
Operating income (loss)	(40,739)	(18,175)
Non-operating income:		
Interest income	962	847
Dividend income	2,675	2,017
Equity in earnings of nonconsolidated subsidiaries and affiliates, net	5,806	8,241
Other	2,257	1,470
Total non-operating income	11,702	12,576
Non-operating expenses:		
Interest expense	9,139	8,079
Loss on foreign exchange, net	1,971	5,419
Other	1,986	1,728
Total non-operating expenses	13,097	15,227
Ordinary income (loss)	(42,134)	(20,826)
Extraordinary income:		
Gain on sales of fixed assets	519	4,904
Gain on sale of affiliate stock	—	3,628
Gain on transfer of business	1,003	474
Other	85	66
Total extraordinary income	1,607	9,072
Extraordinary loss:		
Impairment loss on fixed assets	28,856	24,988
Loss on sales of fixed assets	126	92
Loss on disposals of fixed assets	3,733	1,624
Other	1,044	1,502
Total extraordinary loss	33,761	28,208
Income (loss) before income taxes	(74,287)	(39,961)
Income taxes	(21,112)	(13,496)
Net income (loss)	(53,175)	(26,464)
Noncontrolling interests	3,436	518
Net income (loss) attributable to owners of the parent	(56,611)	(26,982)

2) Consolidated Quarterly Statements of Comprehensive Income

(Unit: ¥Million)

	3rd Quarter of FY2014 (From April 1, 2014 to December 31, 2014)	3rd Quarter of FY2015 (From April 1, 2015 to December 31, 2015)
Net income (loss)	(53,175)	(26,464)
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	2,995	(25)
Deferred gains (losses) on hedging activities, net	(5,227)	(5,010)
Foreign currency translation adjustments	45	(30,877)
Defined retirement benefit plans	(11)	94
Surplus from land revaluation	－	229
Share of other comprehensive income in equity method affiliates	3,225	(1,778)
Total other comprehensive income	1,027	(37,367)
Comprehensive income	(52,147)	(63,832)
Comprehensive income attributable to:		
Owners of the parent	(55,278)	(59,158)
Noncontrolling interests	3,131	(4,673)

(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 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 (loss) mainly represents research and development costs, which do not belong to reportable segments.
3. The operating income (loss) of the reportable segments was reconciled to the amount of operating loss 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 ¥26,686 million on certain of oil field assets and assets in coal mines belonging to the resources business.

Third Quarter of FY2015 (From April 1, 2015 to December 31, 2015)

(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	2,181,787	399,709	164,963	2,746,460	50,374	2,796,834	―	2,796,834
Inter-segment	7,749	4,275	5	12,030	3,524	15,555	(15,555)	―
Total	2,189,537	403,985	164,968	2,758,491	53,899	2,812,390	(15,555)	2,796,834
Operating income (loss)	(46,483)	30,003	(3,919)	(20,399)	4,873	(15,526)	(2,649)	(18,175)

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 (loss) mainly represents research and development costs, which do not belong to reportable segments.
3. The operating income (loss) of the reportable segments was reconciled to the amount of operating loss 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 ¥24,268 million on certain of oil field assets belonging to the resources business.