

August 2, 2016

# Consolidated Financial Results for the First Quarter of Fiscal Year 2016 (From April 1, 2016 to June 30, 2016) [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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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 First Quarter of FY2016 (From April 1, 2016 to June 30, 2016)

### (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	%
1Q FY2016	678,761	(26.4)	24,573	36.3	24,189	51.0	18,411	61.6
1Q FY2015	922,791	(22.2)	18,027	(18.1)	16,024	(32.4)	11,389	24.1

Notes: Comprehensive income 1Q FY2016 ¥ 6,612 million (—) % 1Q FY2015 ¥ (1,696) million (—) %

	Net income per share	Diluted net income per share
	¥	¥
1Q FY2016	115.10	—
1Q FY2015	71.21	71.21

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	¥million	¥million	%
1Q FY2016	2,367,503	537,794	21.3
FY2015	2,402,118	537,660	20.8

Reference: Total equity 1Q FY 2016 ¥ 503,765 million FY 2015 ¥500,642 million

## 2. Dividends

	Cash dividends per share				
	As of Jun.30	As of Sep.30	As of Dec.31	As of Mar.31	Total
	¥	¥	¥	¥	¥
FY2015	—	25.00	—	25.00	50.00
FY2016	—				
FY2016 (Forecasts)		25.00	—	25.00	50.00

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

## 3. Forecasts of Consolidated Financial Results for FY2016 (From April 1, 2016 to March 31, 2017)

(Percentage figures represent changes from the corresponding previous periods)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	¥million	%	¥million	%	¥million	%	¥million	%	¥
First half of FY2016	1,620,000	(13.2)	62,000	—	63,000	—	43,000	—	268.83
FY2016	3,260,000	(8.7)	113,000	—	112,000	—	70,000	—	437.63

Notes: Revisions of the forecasts of consolidated financial results since the latest announcement: None

\* Notes

- (1) Changes of number of material consolidated subsidiaries during the three months ended June 30, 2016: **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: **None**
  - 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 June 30, 2016: 160,000,000	As of March 31, 2016: 160,000,000
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  - b) Number of shares of treasury stock

As of June 30, 2016: 46,956	As of March 31, 2016: 46,956
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  - c) Weighted average number of shares outstanding during the period

Three months ended June 30, 2016: 159,953,044	
Three months ended June 30, 2015: 159,953,224	

\*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 First Quarter of FY 2016

### (1) Explanation of Operating Results

The overall domestic demand for petroleum products during the first quarter of fiscal 2016 decreased compared to the same period of last year, reflecting mainly the weak demands for gasoline and middle distillate products amid unseasonable weather.

Dubai crude oil prices which tended to decline during the latter half of last year have remained on an upward trend since the beginning of this year, reflecting growing uncertainties over the crude oil supply due to the increased political tensions in Nigeria and Libya, wildfire disaster at the major oil sands production sites in Canada, and the shale-oil production cut in the U.S. The average crude oil price for the first quarter of fiscal 2016 was \$43.2/bbl, a decline of \$18.1/bbl against the same period of the previous year.

Demand for petrochemical products during the first quarter of fiscal 2016 was almost consistent with the same period of fiscal 2015. The price for naphtha, a petrochemical raw material, fell by \$159/ton against the same period of last year to \$395/ton.

(Crude oil price, naphtha price and exchange rate)

	Three months ended June 30, 2015	Three months ended June 30, 2016	Change	
Dubai Crude Oil (\$/bbl)	61.3	43.2	(18.1)	(29.6) %
Naphtha (\$/ton)	554	395	(159)	(28.7) %
Exchange Rate (¥/\$)	122.4	109.1	(13.3)	(10.9) %

The Idemitsu Group's net sales for the first quarter of fiscal 2016 were ¥678.8 billion, a decrease of 26.4% compared with the same period of the preceding year, due mainly to decreased import prices for crude oil.

Operating income increased by 36.3% against the same period of the preceding year to ¥24.6 billion, due mainly to cost reductions associated with the lower oil prices, which was partially offset by the effect of reduced margins on petroleum products. Net non-operating income during the quarter remained in the negative territory at ¥0.4 billion, showing a ¥1.6 billion recovery from the corresponding period of last year. As a result, ordinary income was ¥24.2 billion, an increase of 51.0% from the same period of last year.

Net income attributable to owners of the parent increased by 61.6% compared with the same period of fiscal 2015 to ¥18.4 billion.

The performance of each business segment for the three months ended June 30, 2016 is as follows:

As to quarterly reporting periods, domestic subsidiaries use June 30 as their balance sheet date whereas overseas subsidiaries use March 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 three months ended March 31, 2016, and those of domestic subsidiaries for the three months ended June 30, 2016.

[Petroleum products segment]

Net sales of the petroleum products segment for the three months ended June 30, 2016 were ¥508.4 billion, a decrease of 30.4% compared with the same period of the previous year, due partly to declines in import prices for crude oil.

Operating income increased by 78.1% against the same period of the preceding year to ¥17.3 billion, mainly due to decreased costs associated with falling oil prices, which was partially offset by factors such as decreased product margins.

[Petrochemical products segment]

Net sales of the petrochemical products segment for the three months ended June 30, 2016 were ¥107.1 billion, a decrease of 13.2% from the same period of fiscal 2015, due largely to declines in naphtha prices on a customs clearance basis.

Operating income remained almost unchanged at ¥9.3 billion, up 3.0% from the same period of the previous year, helped by the higher sales volume and reduced costs associated with falling naphtha prices, which was partially offset by reduced margins on styrene monomer and other products.

[Resources segment]

(Oil exploration and production business)

Net sales of the oil exploration and production business for the three months ended June 30, 2016 were ¥15.8 billion, down 21.6% from the corresponding period of the previous year, due in large part to a significant decline in crude oil prices. Operating income fell to negative ¥1.5 billion, which was ¥3.0 billion worse than the same period of the preceding year.

(Coal business and others)

Net sales of the coal business and others for the three months ended June 30, 2016 were ¥35.4 billion, up 10.4% compared with the same period of last year, due in large part to an increase in sales volume of coal products. Operating income recovered to ¥0.2 billion, an increase of ¥1.6 billion from the corresponding period of last year, reflecting a positive impact of the currency rate fluctuations, which was partially offset by falling product prices.

As a result, total net sales of resource businesses declined by 2.0% compared with the same period of the previous year to ¥51.2 billion, and operating loss was ¥1.3 billion, which was ¥1.4 billion worse than the same period of the previous year.

[Other segments]

Net sales of the other segments for the three months ended June 30, 2016 decreased by 26.6% from the same period of last year to ¥12.0 billion, and operating income decreased by 93.1% to ¥0.1 billion compared with the same period of the previous year.

## (2) Explanation of Financial Position

Total assets as of June 30, 2016 decreased by ¥34.6 billion from the end of the previous fiscal year to ¥2,367.5 billion, due mainly to decreases in notes and accounts receivable-trade as well as in tangible fixed assets despite an increase in inventories. Total liabilities as of June 30, 2016 decreased by ¥34.7 billion from the end of the preceding fiscal year to ¥1,829.7 billion, due mainly to decreases in notes and accounts payable-trade and accounts payable-other despite an increase in interest-bearing debts (¥926.8 billion as of June 30, 2016).

Total net assets as of June 30, 2016 stood almost flat at ¥537.8 billion (an increase of ¥0.1 billion from the end of the preceding fiscal year), as a result of increase in shareholders' equity due to net income attributable to owners of the parent which was offset by decrease in currency translation adjustment account due to appreciation of yen, and the equity ratio was 21.3% (up 0.4 percentage points from the end of fiscal 2015).

## (3) Explanation of Forecasts of Consolidated Financial Results for FY2016

The Company has not revised the forecasts of the consolidated financial results for the six months ending September 30, 2016 and for the year ending March 31, 2017 released on May 10, 2016.

## 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 three months ended June 30, 2016 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

None

### (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 was entered into 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 Showa Shell

- 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: ¥2,177,625million (fiscal year ended December 31, 2015)

#### (c) Schedule for share transfer

The transfer of the shares is planned for September 2016.  
(Execution of the share transfer is contingent upon the completion of the Japan Fair Trade Commission's corporate merger review.)

#### (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. The Company entered into a syndicate loan agreement for ¥100 billion subject to subordination (“Subordinated Loan”) with financial institutions on March 31, 2016. 75% of the Subordinated Loan will be treated as equity by a credit rating agency for credit rating purposes. The execution of the Subordinated Loan is expected at the time of the share purchase.

(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 on April 1, 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 use 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.

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company adopted revised Guidance No.26 (revised on March 28, 2016) “Implementation Guidance on Recoverability of Deferred Tax Assets” from the first quarter of FY2016.

### 3. Consolidated Financial Statements for the First Quarter of FY2016

#### (1) Consolidated Quarterly Balance Sheets

(Unit: ¥Million)

	FY 2015 (As of March 31, 2016)	1st Quarter of FY2016 (As of June 30, 2016)
<b>Assets</b>		
Current assets:		
Cash and deposits	121,120	109,091
Notes and accounts receivable, trade	259,817	216,214
Inventories	362,746	386,847
Other	117,306	135,274
Less: Allowance for doubtful accounts	(2,330)	(2,258)
Total current assets	858,661	845,168
Fixed assets:		
Property, plant and equipment:		
Machinery and equipment, net	235,916	223,608
Land	586,690	586,200
Other, net	243,976	240,942
Total property, plant and equipment	1,066,583	1,050,751
Intangible fixed assets	23,566	23,577
Investments and other assets:		
Investment securities	255,021	245,927
Oil field premium assets	23,188	15,274
Other	175,566	187,273
Less: Allowance for doubtful accounts	(468)	(469)
Total investments and other assets	453,308	448,005
Total fixed assets	1,543,457	1,522,334
Total assets	2,402,118	2,367,503
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable, trade	291,676	275,847
Short-term loans payable	293,947	220,728
Commercial paper	—	96,999
Accounts payable, other	255,994	234,048
Income taxes payable	3,856	8,861
Provision for bonuses	6,157	2,847
Other	85,539	83,517
Total current liabilities	937,171	922,850
Non-current liabilities:		
Bonds payable	65,000	65,000
Long-term loans payable	550,639	544,037
Liability for employees' retirement benefits	21,351	20,776
Reserve for repair work	28,440	32,380
Asset retirement obligations	79,843	76,371
Oil field premium liabilities	29,042	20,807
Other	152,969	147,485
Total non-current liabilities	927,286	906,858
Total liabilities	1,864,457	1,829,709

(Unit: ¥Million)

	FY 2015 (As of March 31, 2016)	1st Quarter of FY2016 (As of June 30, 2016)
Net assets		
Shareholders' equity:		
Common stock	108,606	108,606
Capital surplus	71,131	71,131
Retained earnings	168,990	183,699
Treasury stock	(130)	(130)
Total shareholders' equity	348,597	363,306
Accumulated other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	4,527	3,291
Deferred gains (losses) on hedging activities, net	(12,854)	(11,514)
Surplus from land revaluation	154,263	153,966
Foreign currency translation adjustments	10,764	(976)
Defined retirement benefit plans	(4,656)	(4,307)
Total accumulated other comprehensive income	152,045	140,458
Noncontrolling interests	37,018	34,029
Total net assets	537,660	537,794
Total liabilities and net assets	2,402,118	2,367,503

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

## 1) Consolidated Quarterly Statements of Income

(Unit: ¥Million)

	1st Quarter of FY2015 (From April 1, 2015 to June 30, 2015)	1st Quarter of FY2016 (From April 1, 2016 to June 30, 2016)
Net sales	922,791	678,761
Cost of sales	835,121	589,357
Gross profit	87,670	89,404
Selling, general and administrative expenses	69,643	64,831
Operating income	18,027	24,573
Non-operating income:		
Interest income	302	525
Dividend income	998	870
Equity in earnings of nonconsolidated subsidiaries and affiliates, net	1,059	996
Other	645	842
Total non-operating income	3,006	3,235
Non-operating expenses:		
Interest expense	2,711	2,367
Loss on foreign exchange, net	1,923	728
Other	374	524
Total non-operating expenses	5,009	3,619
Ordinary income	16,024	24,189
Extraordinary income:		
Gain on sales of fixed assets	20	48
Gain on sale of affiliate stock	3,628	39
Other	17	18
Total extraordinary income	3,665	107
Extraordinary loss:		
Impairment loss on fixed assets	299	85
Loss on sales of fixed assets	4	23
Loss on disposals of fixed assets	341	821
Other	11	—
Total extraordinary loss	656	931
Income before income taxes	19,033	23,365
Income taxes	6,257	4,809
Net income	12,775	18,555
Net income attributable to noncontrolling interests	1,385	144
Net income attributable to owners of the parent	11,389	18,411

## 2) Consolidated Quarterly Statements of Comprehensive Income

(Unit: ¥Million)

	1st Quarter of FY2015 (From April 1, 2015 to June 30, 2015)	1st Quarter of FY2016 (From April 1, 2016 to June 30, 2016)
Net income	12,775	18,555
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	2,250	(1,150)
Deferred gains (losses) on hedging activities, net	(1,636)	913
Foreign currency translation adjustments	(15,006)	(5,155)
Defined retirement benefit plans	33	347
Share of other comprehensive income in equity method affiliates	(113)	(6,897)
Total other comprehensive income	(14,472)	(11,943)
Comprehensive income	(1,696)	6,612
Comprehensive income attributable to:		
Owners of the parent	(272)	7,121
Noncontrolling interests	(1,424)	(509)

(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

First Quarter of FY2015 (From April 1, 2015 to June 30, 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	730,761	123,377	52,263	906,402	16,389	922,791	—	922,791
Inter-segment	2,882	1,392	5	4,280	1,174	5,455	(5,455)	—
Total	733,644	124,770	52,269	910,683	17,563	928,247	(5,455)	922,791
Operating income	9,700	9,005	145	18,850	789	19,639	(1,612)	18,027

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

There was no significant item during the period.

First Quarter of FY2016 (From April 1, 2016 to June 30, 2016)

(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	508,441	107,058	51,235	666,735	12,025	678,761	—	678,761
Inter-segment	2,067	880	0	2,948	1,006	3,954	(3,954)	—
Total	510,509	107,939	51,235	669,684	13,032	682,716	(3,954)	678,761
Operating income (loss)	17,280	9,274	(1,288)	25,266	54	25,320	(747)	24,573

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 income in the consolidated quarterly statement of income.

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

There was no significant item during the period.

4) Significant Subsequent Event

None