Presentation on Results for the 2nd Quarter FY 2018

Idemitsu Kosan Co.,Ltd.

November 14, 2018

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(1) Overview

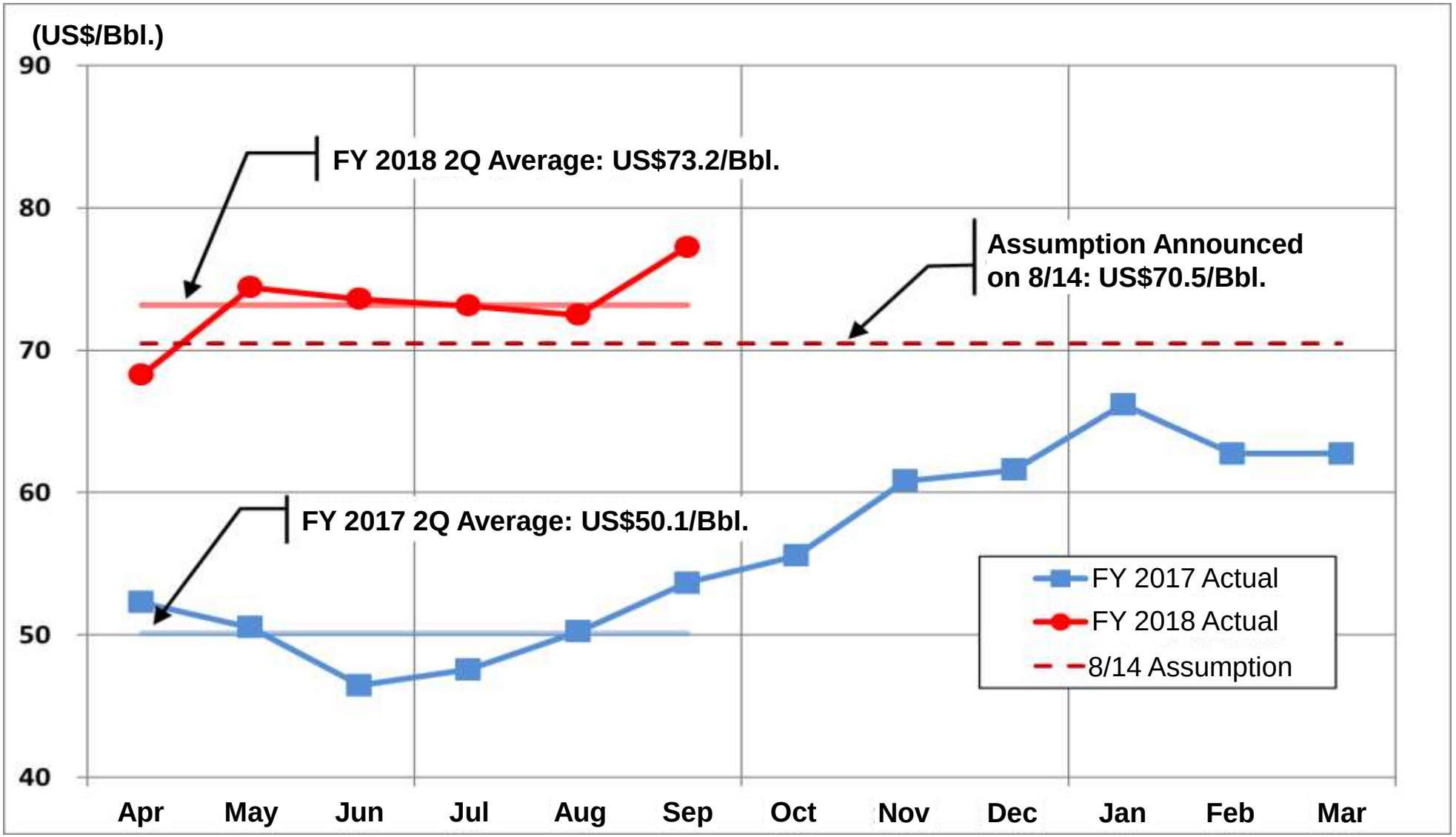
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Crude Oil Price Trends

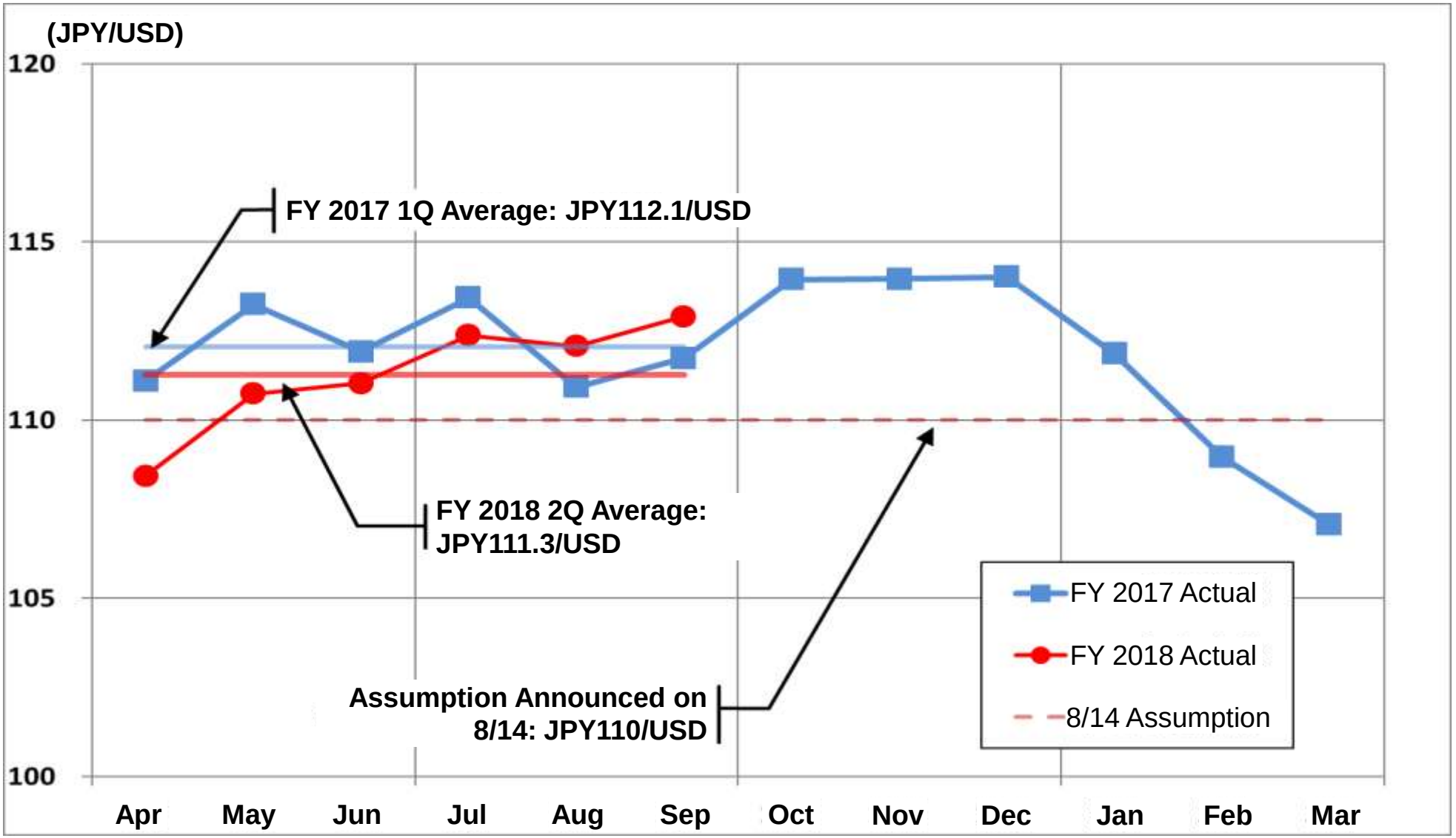
<Monthly Dubai Crude Oil Price Trends and Assumptions for Performance Forecasts>



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JPY/USD Exchange Rate (TTS) Trends

<Monthly JPY/USD Exchange Rate Trends and Assumptions for Performance Forecasts>



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Overview

<FY 2018 2nd Quarter Results>

- **Operating income increased by ¥47.6 billion year-on-year to ¥133.7 billion due to increased petroleum product margins and inventory valuation gains of ¥36.3 billion with increased crude oil prices**
- **Ordinary income increased by ¥64.2 billion year-on-year to ¥153.8 billion, leading net income attributable to owners of the parent to increase by ¥46.1 billion year-on-year to ¥103.5 billion**

<Forecast for FY 2018 Performance>

- **Our forecasts announced on August 14 remain unchanged**

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1. FY 2018 2nd Quarter Results

(1) Overview

1) Crude Oil / Exchange Rates

(Units: $/Bbl., $/Ton, ¥/$)

	FY2017 2Q	FY2018 2Q	Change	
Crude Oil (DB FOB)	50.1	73.2	23.1	46.1%
Crude Oil (Brent)	51.8	70.6	18.8	36.3%
Naphtha Price (Customs)	465	645	180	38.7%
Thermal Coal (NEWC)	81.8	103.4	21.6	26.4%
Exchange Rate (TTS)	112.1	111.3	(0.8)	(0.7%)

* Brent and general coal price are averages based on the calendar year (January-June).

2) Consolidated Income Statement (Summary)

(Units: ¥ billions)

	FY2017 2Q	FY2018 2Q	Change	
Net Sales	1,697.4	2,114.0	416.6	24.5%
Operating Income	86.1	133.7	47.6	55.2%
(Inventory impact)	*(6.0)*	*36.3*	*42.3*	—
(Excluding inventory impact)	*92.1*	*97.4*	*5.3*	*5.7%*
Non-operating Income/Loss	3.4	20.1	16.7	488.8%
Ordinary Income	89.5	153.8	64.2	71.8%
Extraordinary Gain/Loss	(0.7)	2.2	2.9	—
Net Income Attributable to Owners of the Parent	57.3	103.5	46.1	80.5%
(Excluding inventory impact)	*61.5*	*78.3*	*16.8*	*27.4%*

* Gross average method of inventory valuation
* "Inventory impact" represents the impact of inventory valuation and the reduction in book value of inventory assets
* Figures rounded to the nearest billion yen

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(2) Segment Information

1) Operating Income

(Units: ¥ billions)

	FY2017 2Q	FY2018 2Q	Change	
Petroleum Products	31.2	76.8	45.7	146.6%
(Excluding inventory impact)	*37.1*	*40.5*	*3.4*	*9.1%*
Petrochemical Products	20.6	19.7	(0.9)	(4.5%)
Resources	32.8	36.1	3.3	10.1%
Oil Exploration and Production	*14.0*	*14.6*	*0.6*	*4.0%*
Coal, etc.	*18.8*	*21.6*	*2.8*	*14.6%*
Others	3.1	2.2	(0.9)	(29.8%)
Reconciliation	(1.6)	(1.2)	0.4	—
Total	86.1	133.7	47.6	55.2%
(Excluding inventory impact)	*92.1*	*97.4*	*5.3*	*5.7%*

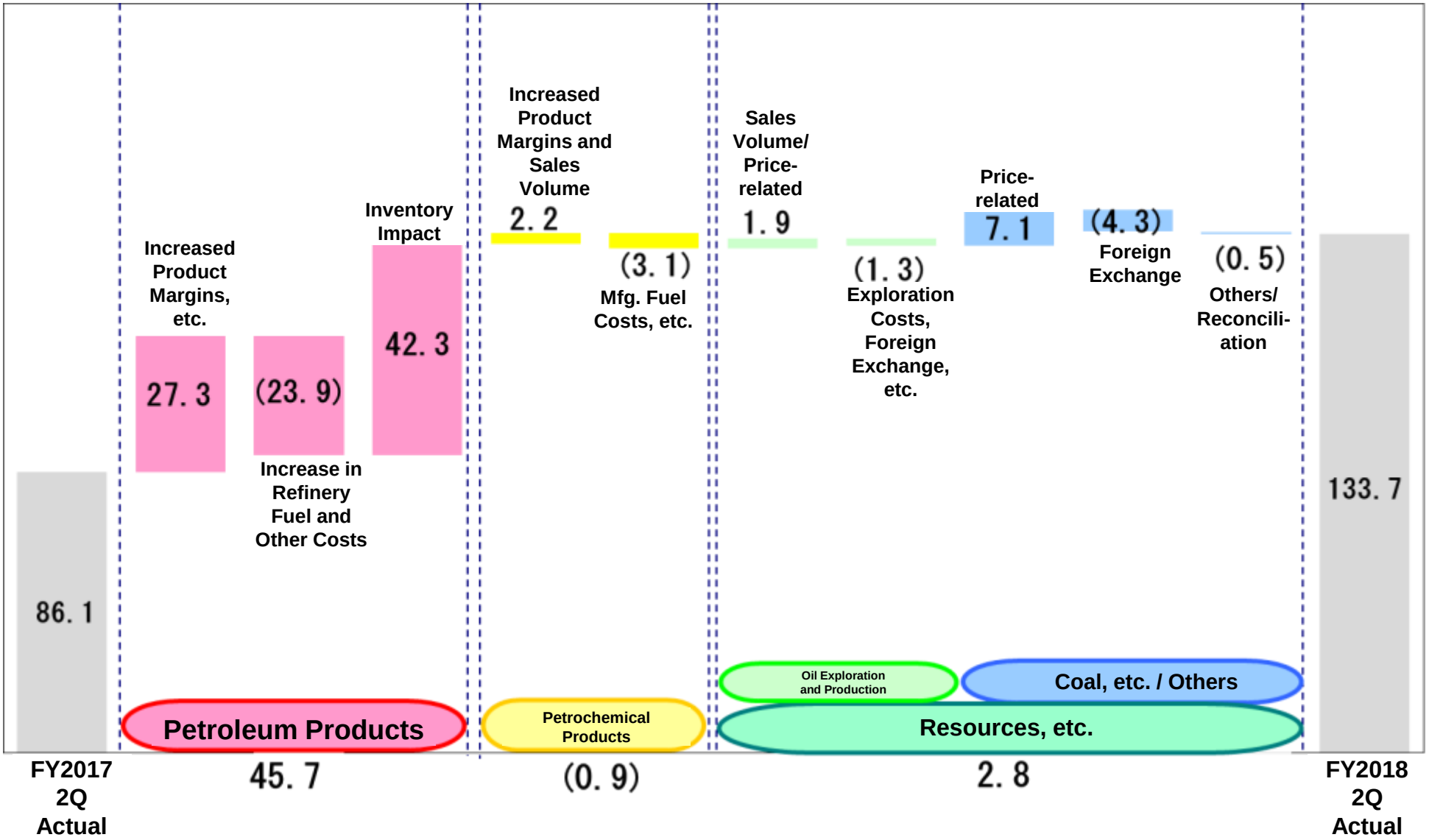
*** Fiscal years for Australian coal operations and Oil Exploration and Production included in the Resources Business end in December**

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(2) Segment Information

2) Analysis of Factors Affecting Operating Profits (Year-on-year)

(Units: ¥ billions)



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1. Shareholder Returns

(1) Dividends (per share)

		Interim	FY End	Total
FY 2017	(Actual)	¥40	¥40	¥80
FY 2018	(Actual)	¥50	—	—
	(Forecast)	—	¥50	¥100

(2) Acquisition of Treasury Shares(as of November 9)

■ **Aggregate number of shares acquired** **10,439,700 shares**

(5.02% of shares outstanding)

■ **Aggregate amount of purchase price** **¥54,999,551,500**

* The acquisition of the Company's treasury shares based on the board resolution on July 10, 2018 has been completed

<Reference: Details of board resolution concerning share repurchases on July 10, 2018>

■Type of shares to be acquired	Common shares of Idemitsu Kosan Co.,Ltd.
■Aggregate number of shares to be acquired	12 million shares (upper limit)
■Aggregate amount of purchase price	55 billion yen (upper limit)
■Acquisition period	From July 17, 2018 to December 28, 2018
■Acquisition method	Market purchase based on the discretionary dealing contract

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2. Financial Reporting

(1) FY2018 2nd Quarter Net Sales by Segment

(Units: ¥ billions)

	FY2017 2Q	FY2018 2Q	Change	
Petroleum Products	1,294.0	1,656.6	362.6	28.0%
Petrochemical Products	228.3	285.2	56.9	24.9%
Resources	143.5	140.9	(2.6)	(1.8%)
Oil Exploration and Production	*42.5*	*33.6*	*(8.9)*	*(20.9%)*
Coal, etc.	*101.0*	*107.2*	*6.3*	*6.2%*
Others/Reconciliation	31.5	31.3	(0.3)	(0.8%)
Total	1,697.4	2,114.0	416.6	24.5%

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2. Financial Reporting

(2) Extraordinary Gains/Losses

(Units: ¥ billions)

	FY2017 2Q	FY2018 2Q	Change
Gain on Sale of Fixed Assets	0.9	1.4	0.5
Gain on Sale of Affiliate Stock	0.0	0.2	0.2
Other	0.0	6.2	6.2
Total Extraordinary Gains	0.9	7.8	6.9
Loss on Sale or Depletion of Fixed Assets	0.8	0.7	(0.1)
Impairment Losses	0.8	3.2	2.4
Other	0.0	1.7	1.7
Total Extraordinary Losses	1.6	5.6	4.0
Total Extraordinary Gains/Losses	(0.7)	2.2	2.9

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2. Financial Reporting

(3) Consolidated Balance Sheet

(Units: ¥ billions)

	3/31/2018	9/30/2018	Change
Cash and Deposits	88.4	71.8	(16.6)
Receivables	486.2	466.4	(19.8)
Inventory	535.6	633.0	97.4
Other Current Assets	98.0	103.7	5.7
Total Current Assets	1,208.2	1,275.0	66.7
Tangible Fixed Assets	1,006.8	999.1	(7.7)
(Land)	579.7	577.9	(1.9)
(Other)	427.0	421.3	(5.8)
Other Fixed Assets	705.2	694.2	(11.1)
Total Fixed Assets	1,712.0	1,693.3	(18.8)
Total Assets	2,920.3	2,968.2	48.0

	3/31/2018	9/30/2018	Change
Payables	429.6	413.7	(15.8)
Short-term Borrowings	305.9	394.6	88.7
Other Current Liabilities	426.2	396.6	(29.6)
Total Current Liabilities	1,161.6	1,204.9	43.3
Long-term Borrowings	586.2	578.7	(7.5)
Other Fixed Liabilities	266.6	228.0	(38.5)
Total Fixed Liabilities	852.7	806.7	(46.0)
Total Liabilities	2,014.3	2,011.6	(2.7)
Shareholders' Equity	702.8	769.4	66.6
Other Comprehensive Income	165.9	149.5	(16.4)
Noncontroling Interests	37.2	37.7	0.5
Total Net Assets	905.9	956.6	50.7
Total Liabilities and Net Assets	2,920.3	2,968.2	48.0

Total Interest-bearing Debt	893.6	974.8	81.2
Equity Ratio	29.7%	31.0%	1.2%
Net D/E Ratio	0.93	0.98	0.06

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2. Financial Reporting

(4) Consolidated Statement of Cash Flows

(Units: ¥ billions)

	FY2017 2Q	FY2018 2Q	Change
CF from Operating Activities	136.3	9.1	(127.2)
Net Income before Tax Adjustments	88.9	156.0	67.1
Depreciation Expense	34.3	31.2	(3.0)
Increase in Sales Receivables and Inventory	24.0	(83.9)	(107.9)
Other	(10.9)	(94.2)	(83.3)
CF from Investing Activities	(41.4)	(67.8)	(26.4)
Purchase of Tangible Fixed Assets	(27.2)	(45.3)	(18.0)
Other	(14.2)	(22.5)	(8.4)
CF from Financing Activities	(37.1)	44.6	81.7
Increase (Decrease) in Borrowings, etc.	(148.8)	84.1	232.9
Proceeds from Stock Issuance	118.6	-	(118.6)
Other	(7.0)	(39.6)	(32.6)
Translation Gains/Losses	0.4	(2.2)	(2.5)
Increase in Cash and Cash Equivalents	58.2	(16.3)	(74.5)
Cash and Cash Equivalents - Beginning Balance	90.1	86.8	(3.3)
Cash and Cash Equivalents - Ending Balance	148.3	70.6	(77.7)

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3. Sensitivity

(1) Impact of a US$1/bbl. Decrease in Crude Oil Prices on FY Earnings

Petroleum Products	Decrease in refinery fuel costs, etc.	¥0.6 billion
	Inventory impact	(¥3.5 billion)
		(¥2.9 billion)
Oil Exploration & Production		(¥1.0 billion)

(2) Impact of a 1 JPY/USD Depreciation on FY Earnings

Petroleum Products	Increase in refinery fuel costs, etc.	(¥0.3 billion)
	Inventory impact	¥1.5 billion
		¥1.2 billion
Petrochemical Products		¥0.4 billion
Oil Exploration & Production		—

* In addition to the above, the resources and other businesses are impacted by fluctuations in exchange rates with other currencies (NOK, AUD, etc.)

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4. Sales and Production

(1)Sales Volume (Domestic Fuel Oil Sales Volume: Non-consolidated)

（Units:Thousand KL,%）

	FY 2017 2Q	FY 2018 2Q	Change	
Gasoline	4,048	3,970	(78)	(1.9%)
(Premium-Unleaded)	435	409	(26)	(6.0%)
(Regular-Unleaded)	3,613	3,561	(52)	(1.4%)
Naphtha	112	204	92	81.5%
Jet Fuel	933	1,001	68	7.3%
Kerosene	542	485	(56)	(10.4%)
Diesel Oil	3,052	2,993	(59)	(1.9%)
Heavy Fuel Oil A	960	888	(72)	(7.5%)
Heavy Fuel Oil C	1,106	1,011	(94)	(8.5%)
Toal Domestic Sales Volume	10,753	10,553	(200)	(1.9%)
Exported Volume	1,683	1,769	86	5.1%
(General Exports)	740	745	6	0.7%
Total Sales Volume	12,435	12,322	(113)	(0.9%)

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4. Sales and Production

(2) Sales Volume (Petrochemical Products: Non-consolidated)

(Units:Thousand tons, %)

	FY 2017 2Q	FY 2018 2Q	Change	
Petrochemical Products-Total	1,626	1,741	115	7.1%
(Basic Chemicals)	1,605	1,715	111	6.9%
(Performance Chemicals)	22	26	4	18.3%

(3) Sales Volume (Lubricants)

(Units:Thousand KL,%)

	FY 2017 2Q	FY 2018 2Q	Change	
Lubricants	606	627	21	3.4%

*Includes sales of overseas licenses

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4. Sales and Production

(4) Oil Exploration & Production – Production Volume (including Gas)

(Units:Thousand BOED)

	FY 2017 2Q	FY 2018 2Q	Change	
Norway	37.1	28.5	(8.6)	(23.1%)
United Kingdom	4.9	0.0	(4.9)	(100.0%)
Total('000BOED)	42.0	28.5	(13.4)	(32.1%)
Total('000BOE)	7,595	5,160	(2,434)	(32.1%)

*Figures based on interest owned by Idemitsu's resource development subsidiaries

(5) Coal – Production Volume

(Units:Thousand tons)

	FY 2017 2Q	FY 2018 2Q	Change	
Ensham	1,874	2,118	244	13.0%
Muswellbrook	708	785	77	10.9%
Boggabri	2,772	2,517	(255)	(9.2%)
Tarawonga	369	204	(165)	(44.6%)
Sub Total	5,723	5,624	(99)	(1.7%)
Malinau	594	560	(34)	(5.7%)
Total Production Volume	6,317	6,184	(133)	(2.1%)

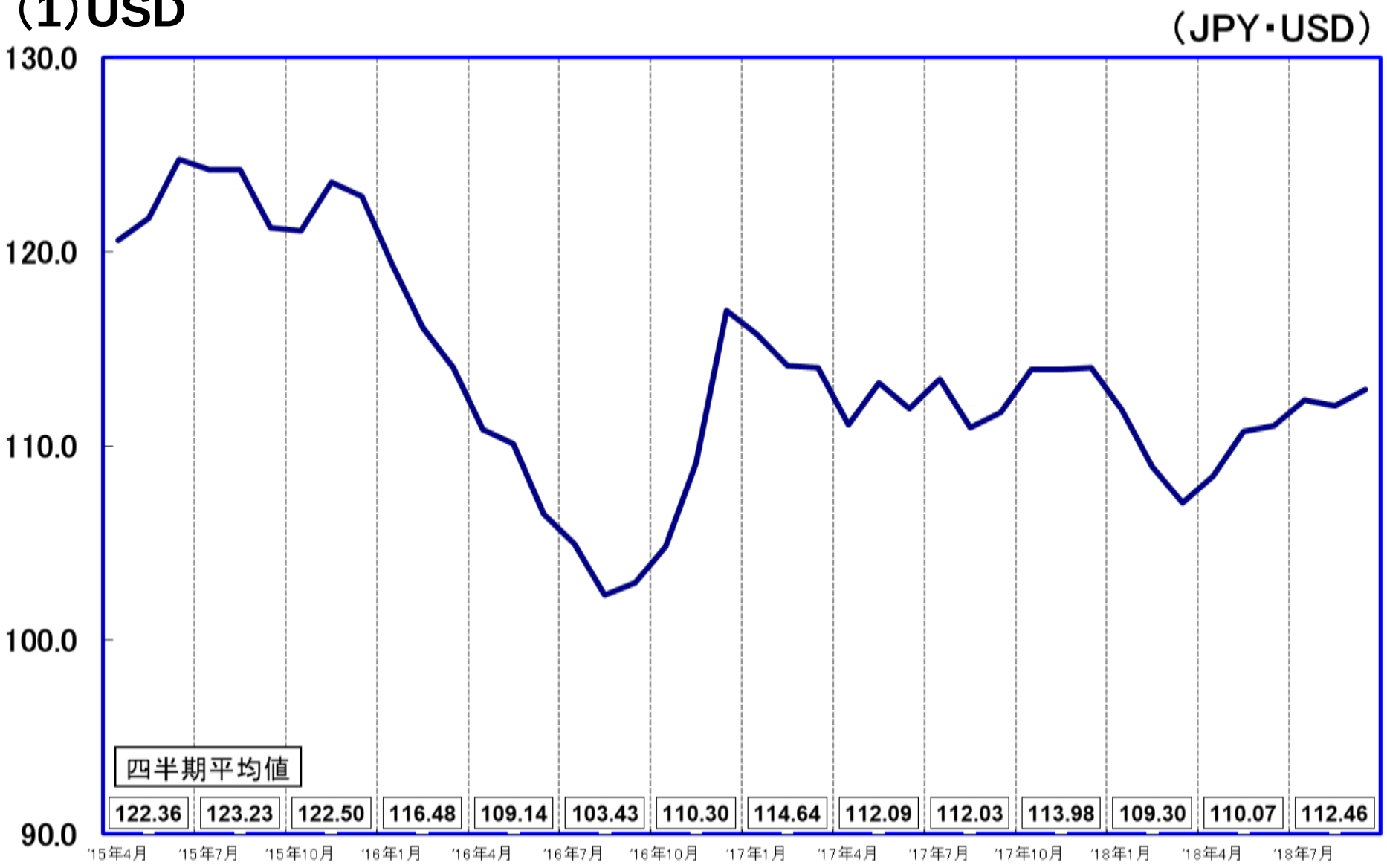
*Figures based on interst owned by Idemitsu Group

*Fiscal years for Oil Exploration and Production and Coal operations end in December

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5. Foreign Exchange

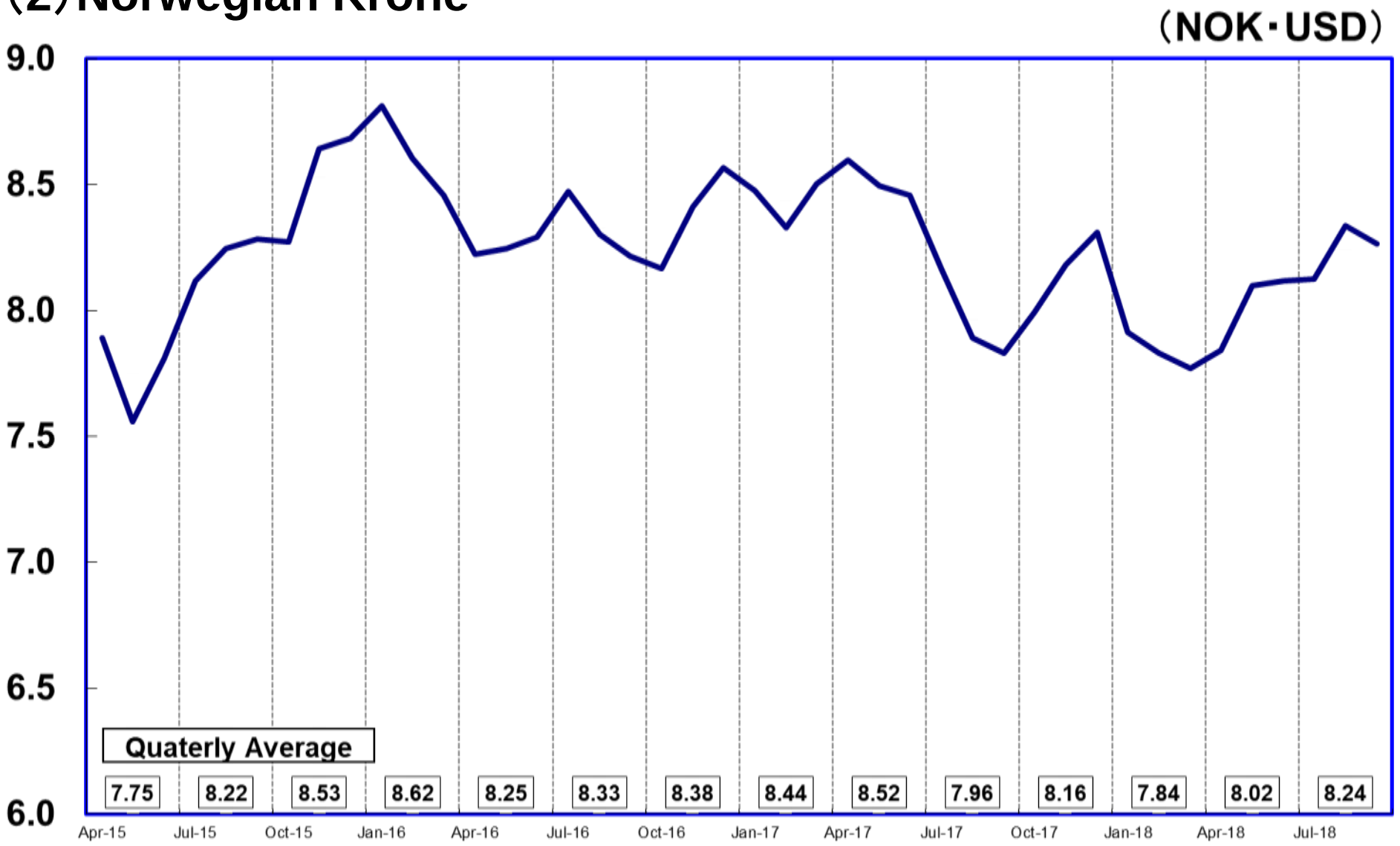
(1)USD



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5. Foreign Exchange

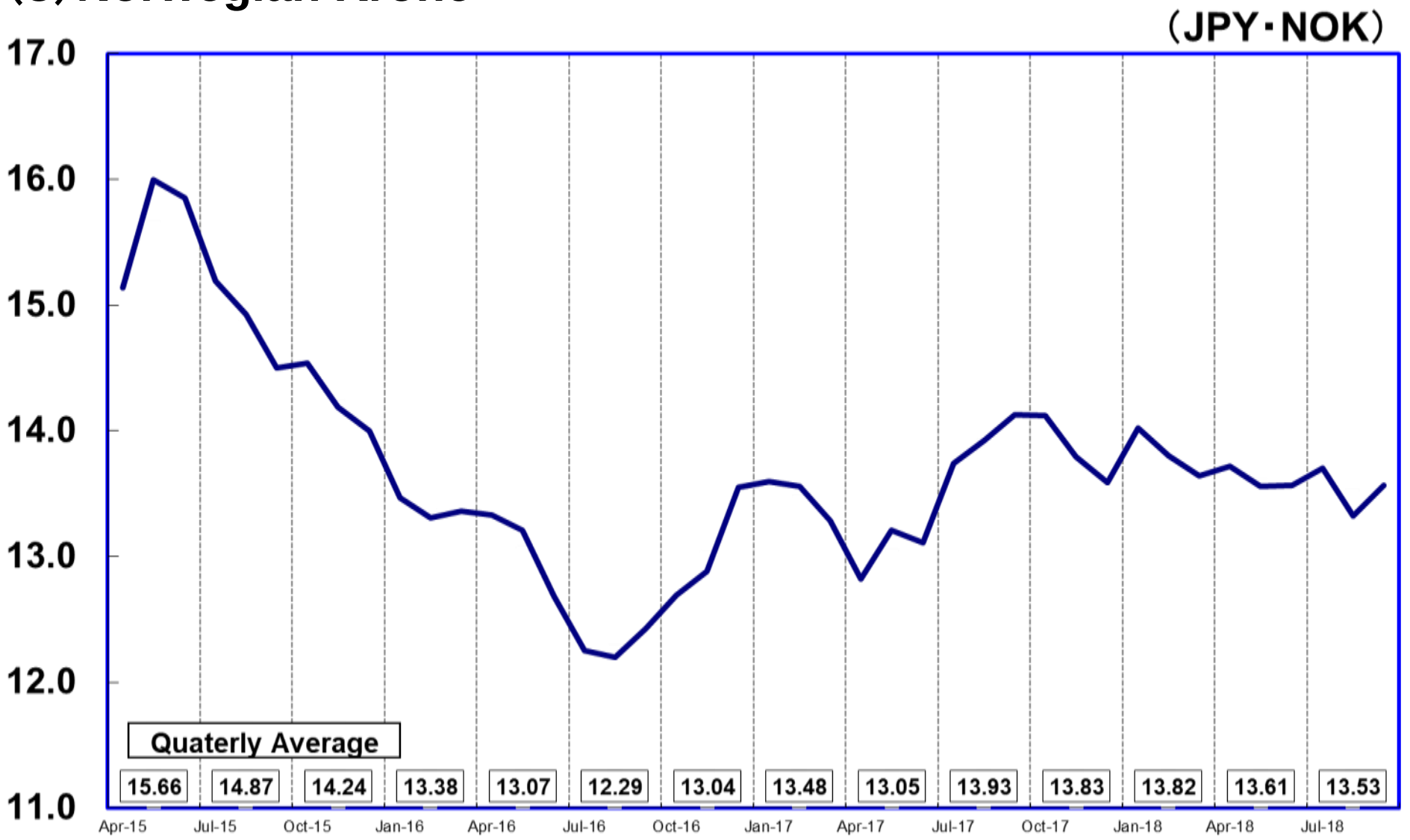
(2) Norwegian Krone



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5. Foreign Exchange

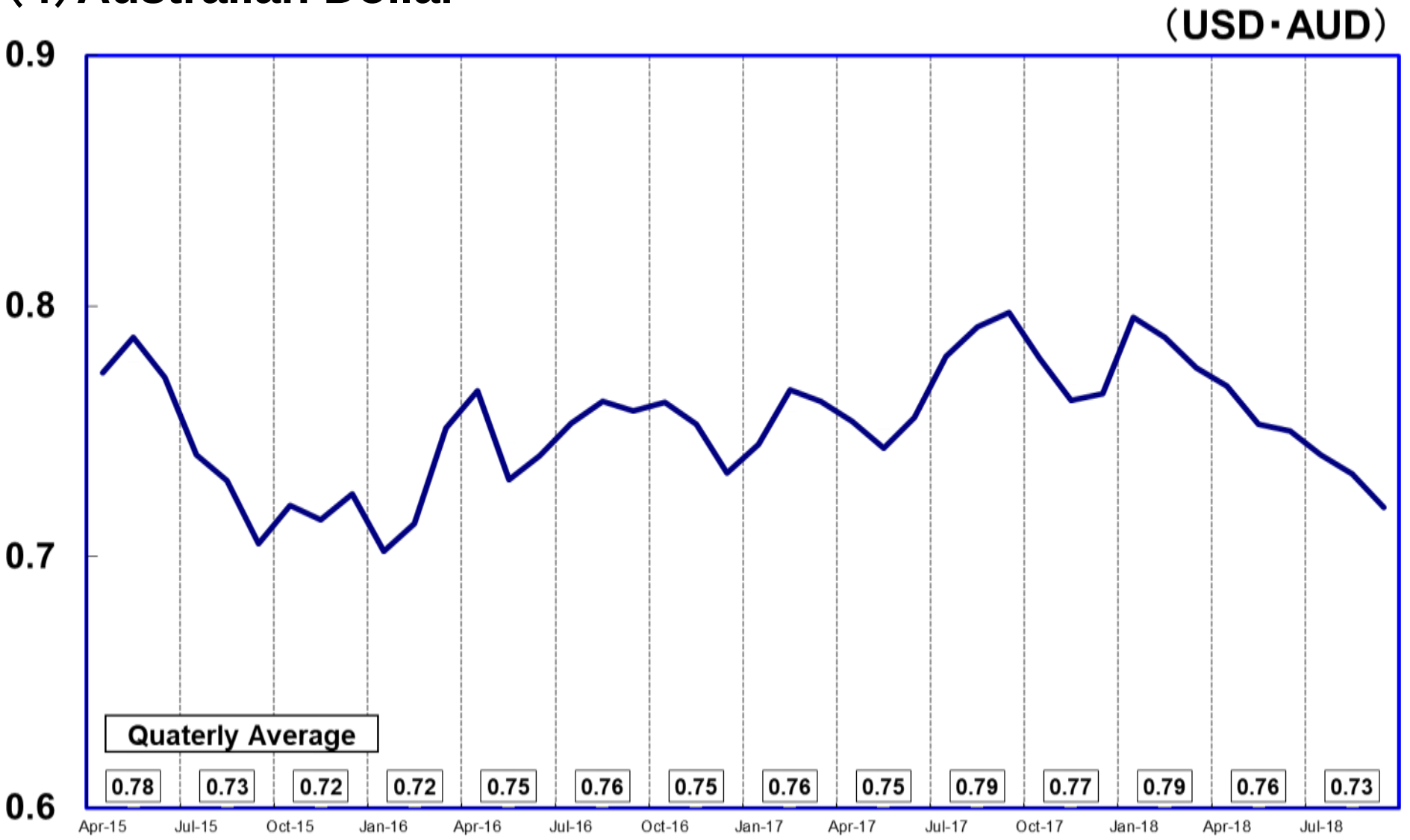
(3) Norwegian Krone



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5. Foreign Exchange

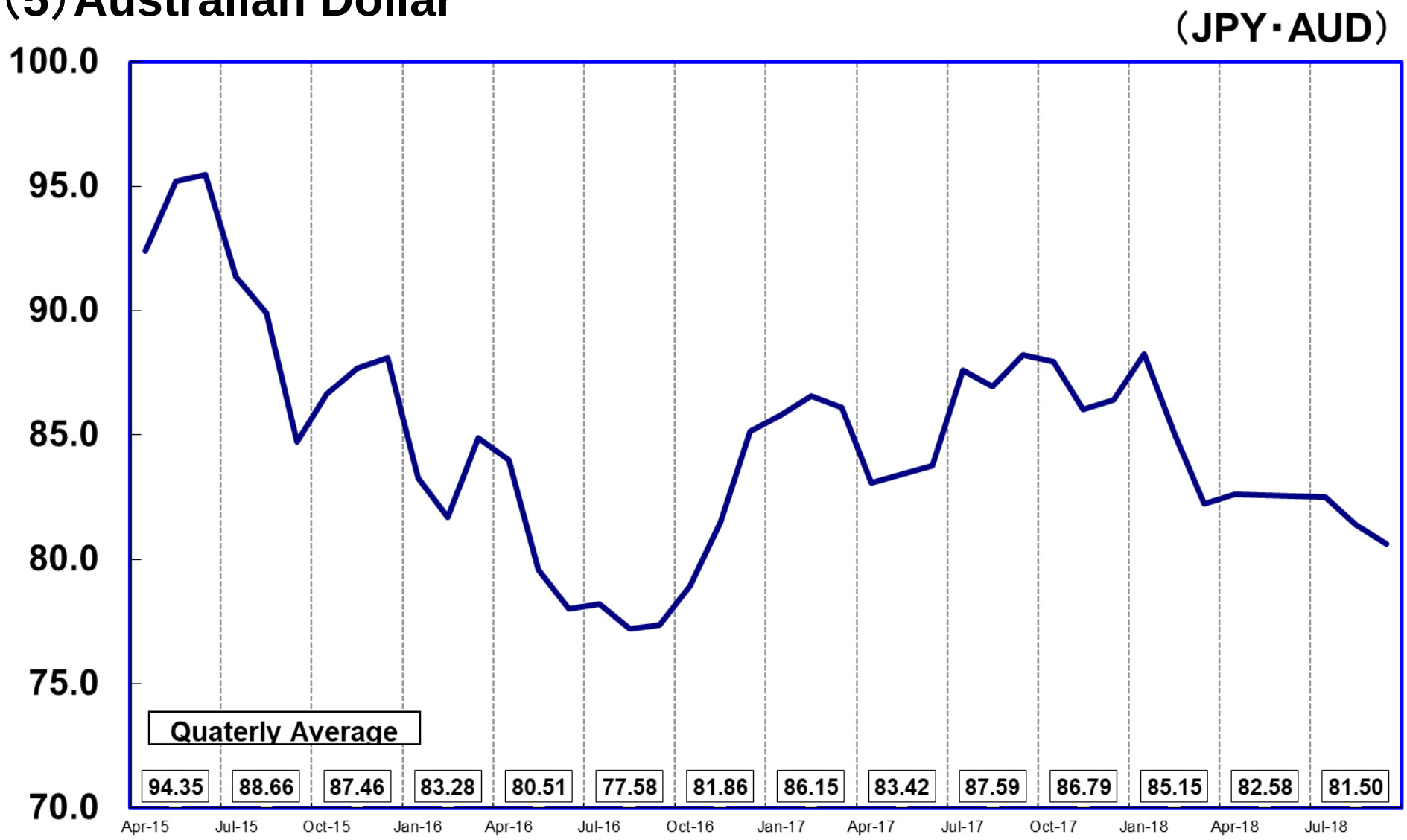
(4) Australian Dollar



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5. Foreign Exchange

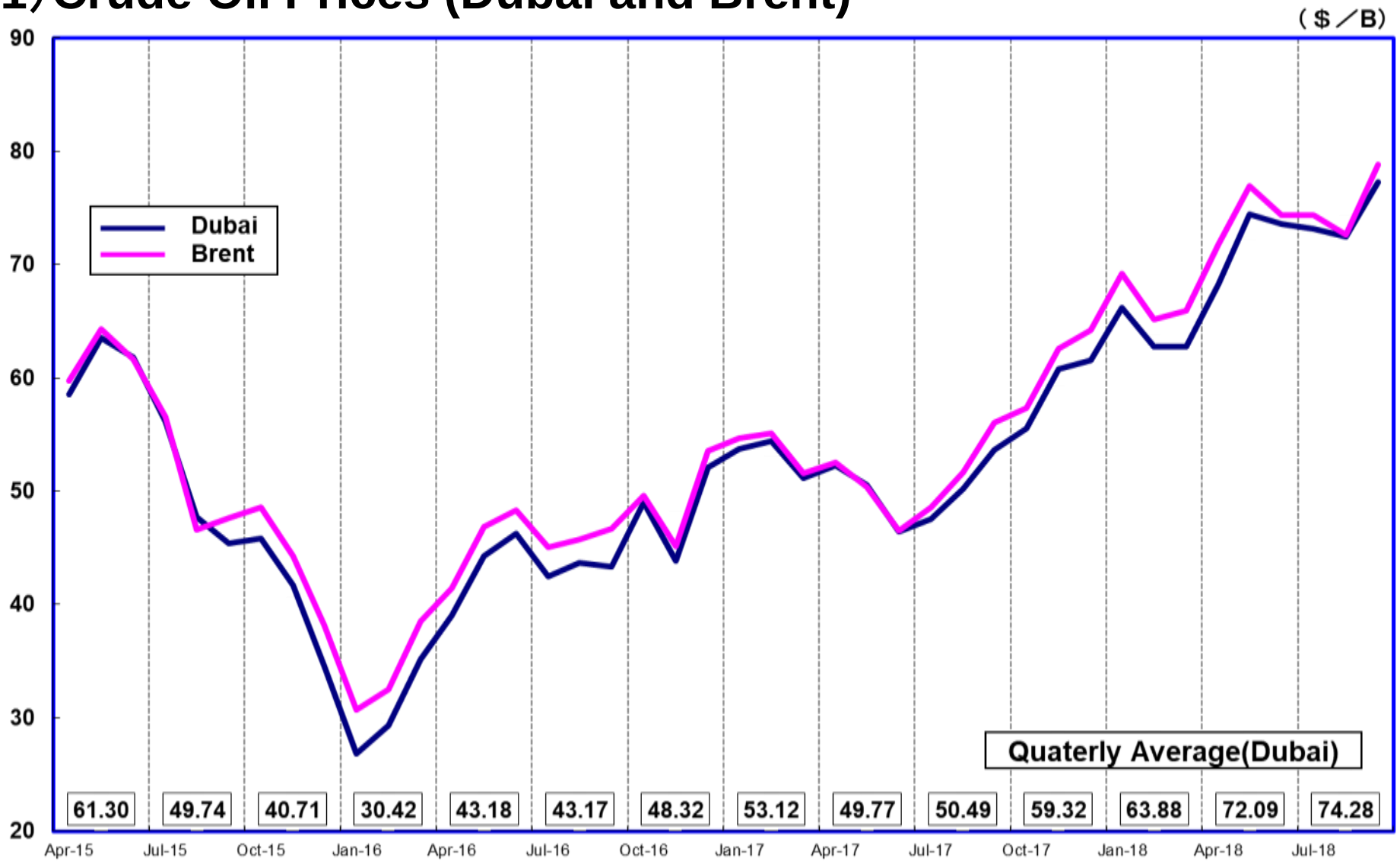
(5) Australian Dollar



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6. Market Conditions

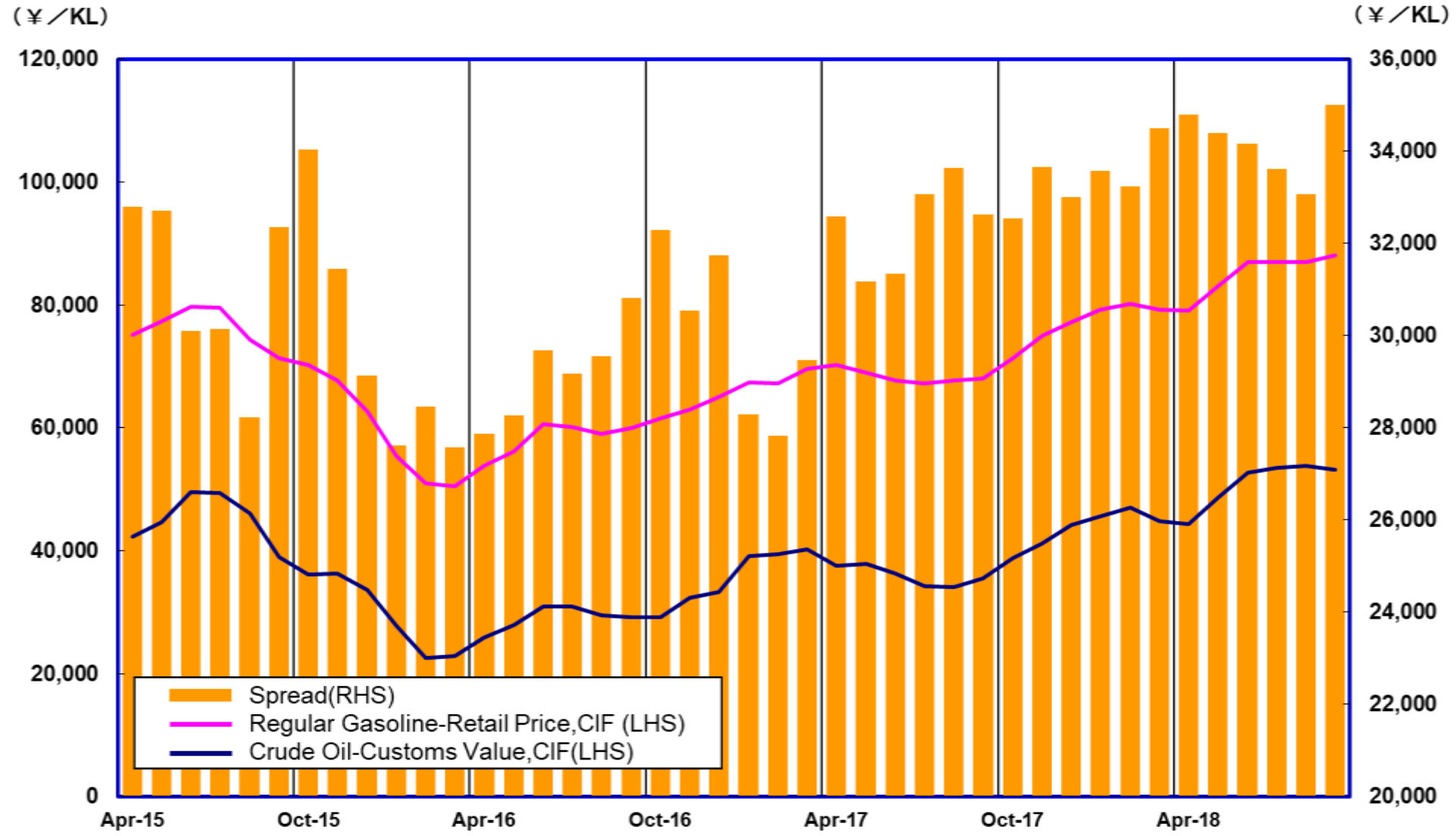
(1) Crude Oil Prices (Dubai and Brent)



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6. Market Conditions

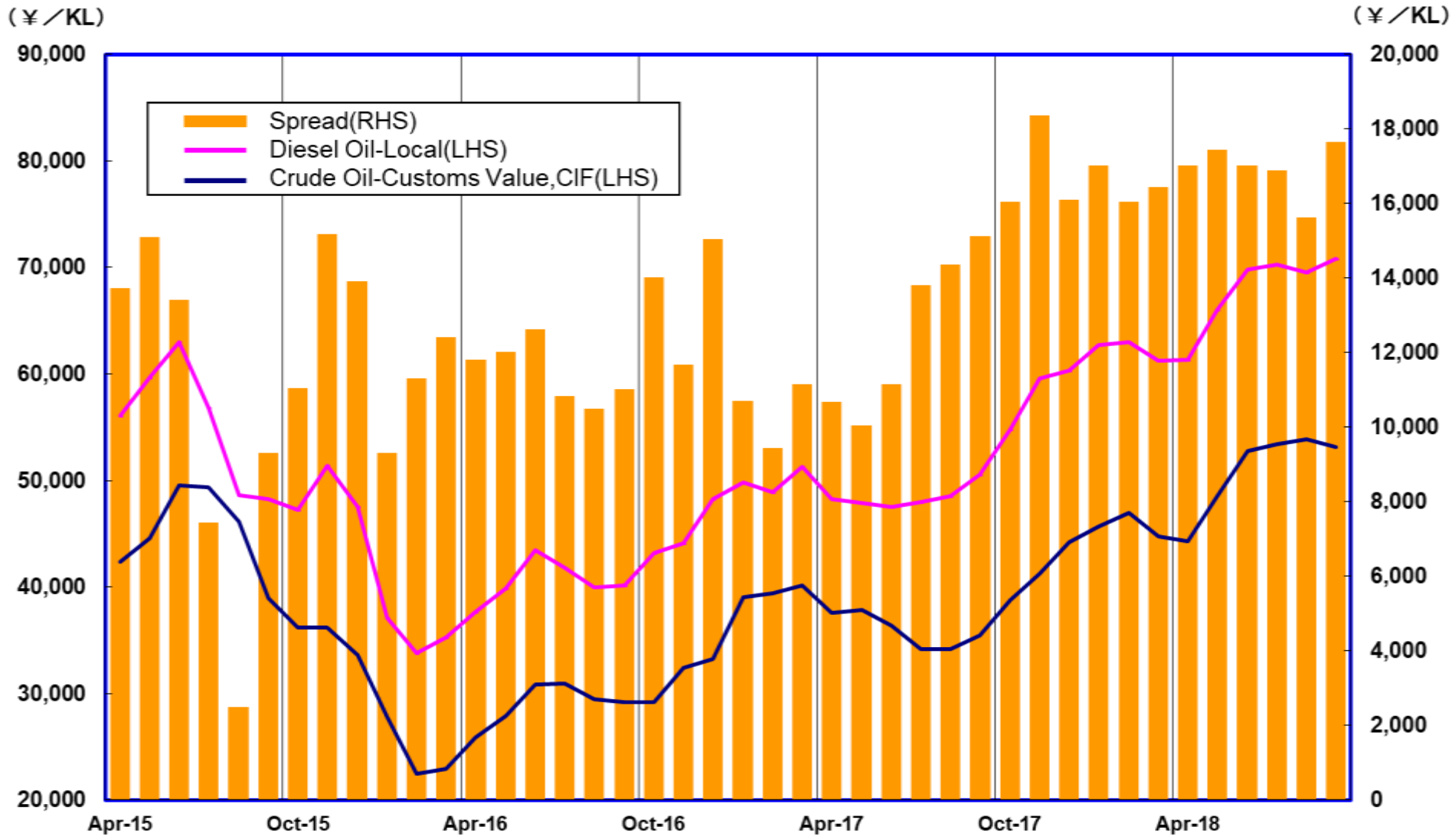
(2) Gasoline, Crude Oil CIF (Prices and Spreads)



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6. Market Conditions

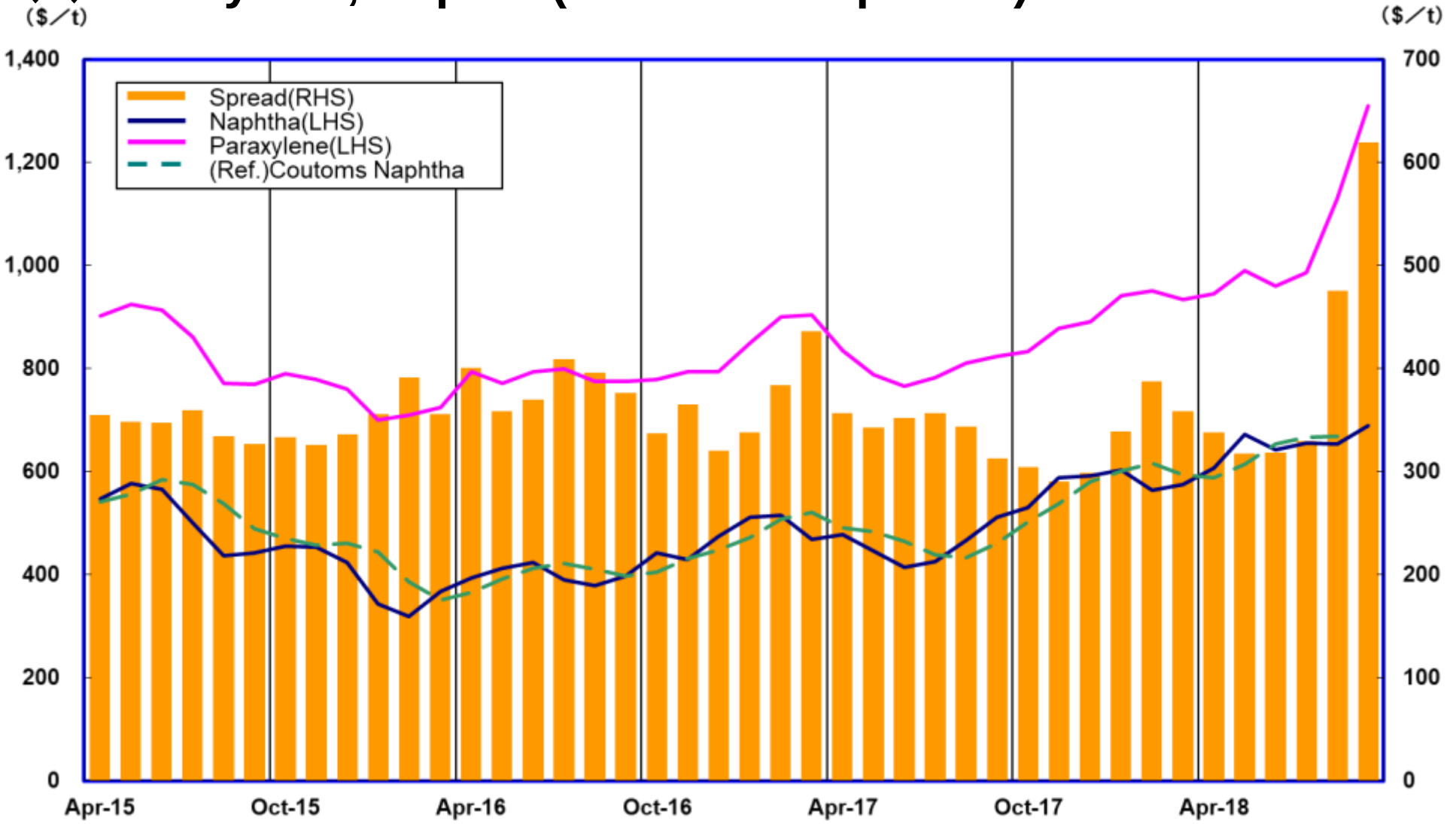
(3) Diesel Oil – Crude Oil CIF (Prices and Spreads)



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6. Market Conditions

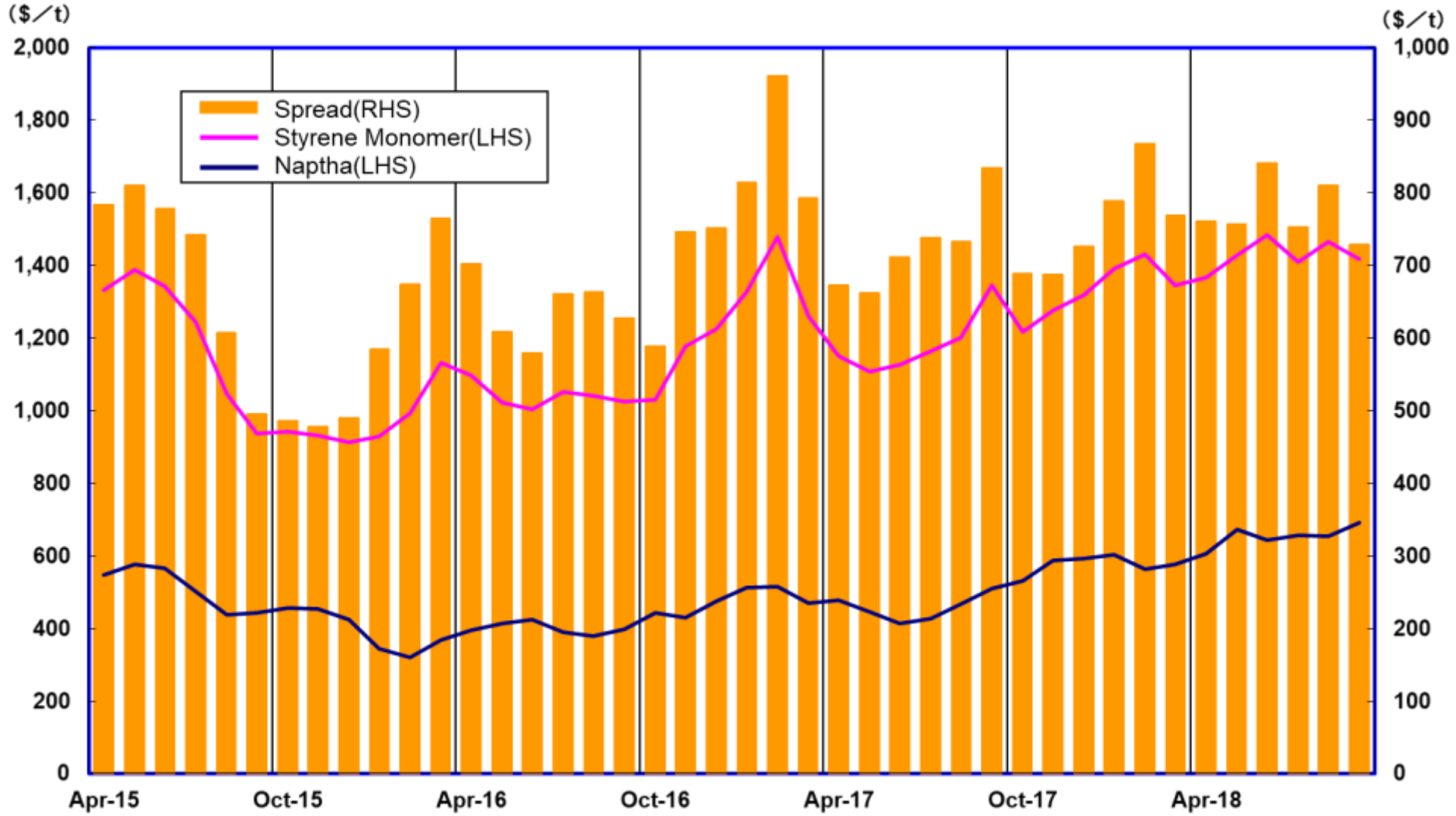
(4) Paraxylene, Naptha (Prices and Spreads)



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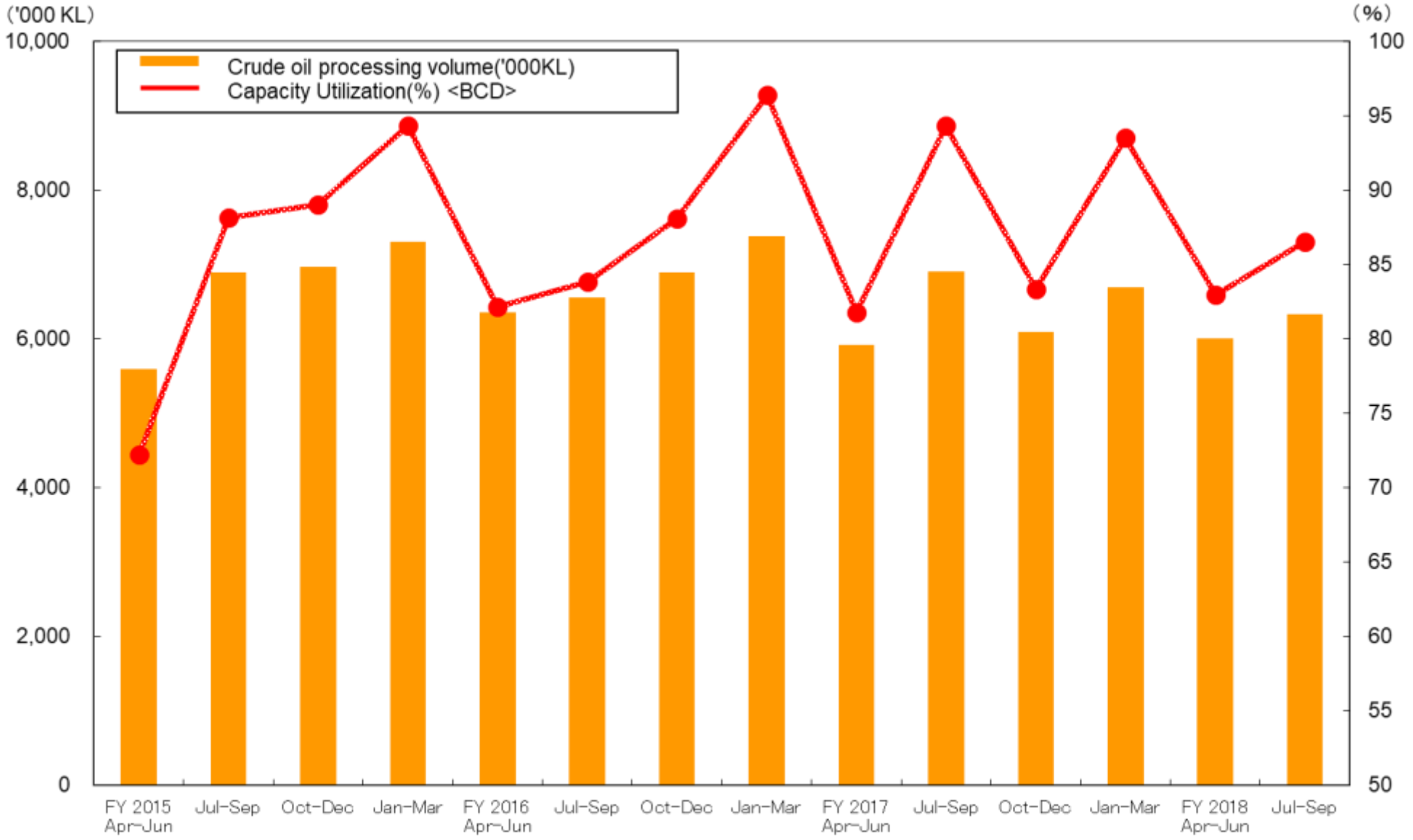
6. Market Conditions

(5) Styrene Monomer, Naptha (Prices and Spreads)



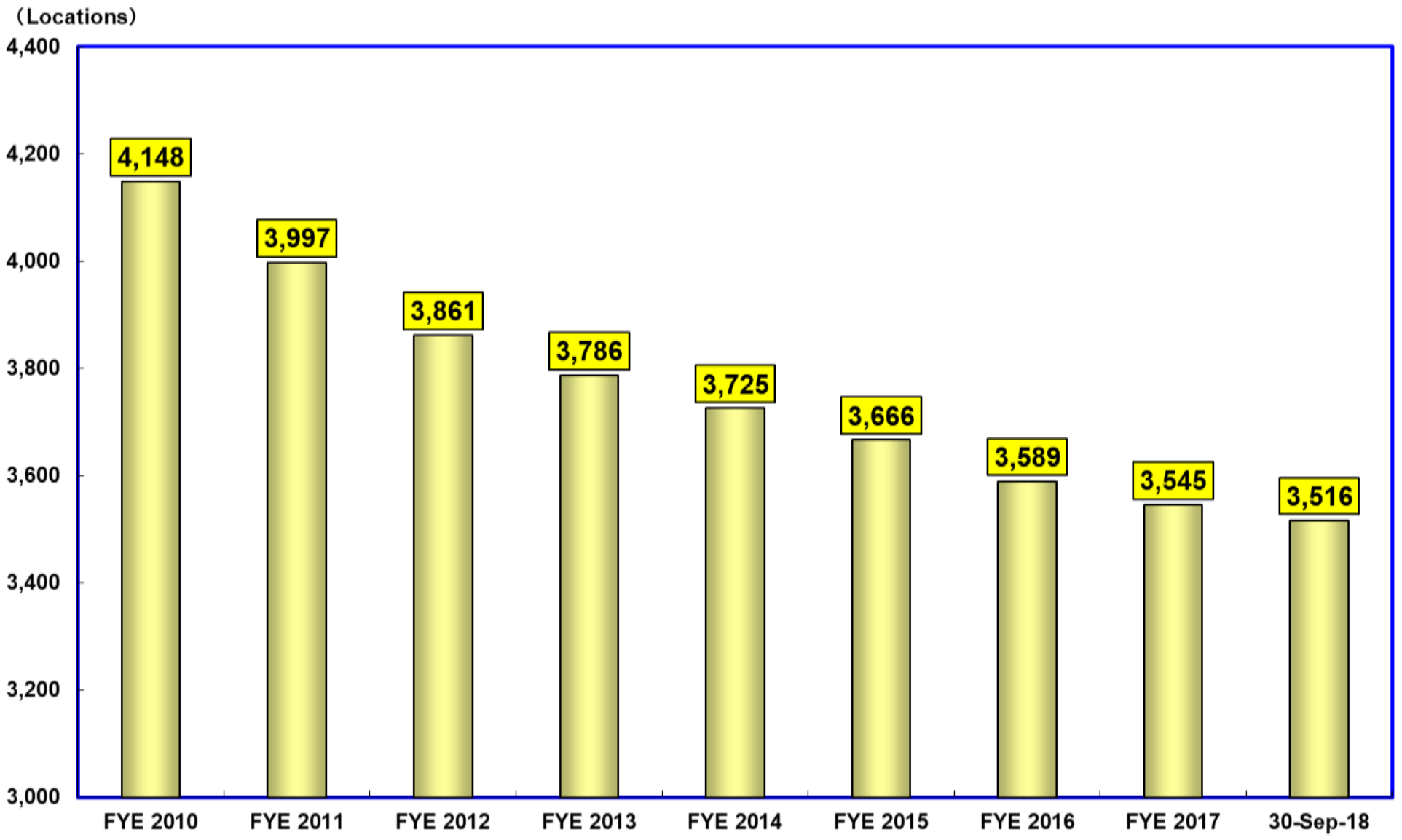
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7. Capacity Utilization at Refineries



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8. Number of Service Stations



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Any information about forecasts for the Company's operating results, management strategy and management policy contained in this documents other than historical facts is prepared, according to judgments made by the top management of the Company based on information available as of the publication of the document.

Actual business environments contain potential risk factors and uncertainties including economic situations, crude oil prices, trends in petroleum products, market conditions, currency exchange rates and interest rates.

Consequently, actual operating results of the Company may substantially differ from forecasts due to changes in the important factors mentioned above.

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