February 14, 2019

Consolidated Financial Results for the Third Quarter of Fiscal Year 2018 (From April 1, 2018 to December 31, 2018) [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 14, 2019
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 FY2018 (From April 1, 2018 to December 31, 2018)

(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 FY2018	3,340,100	25.4	143,244	(8.4)	159,281	(6.2)	101,777	(29.8)
3Q FY2017	2,664,360	17.8	156,446	87.0	169,871	100.9	145,076	139.3

Note: Comprehensive income 3Q FY2018 ¥94,753 million (39.4) % 3Q FY2017 ¥156,297 million 628.9%

	Net income per share	Diluted net income per share
	¥	¥
3Q FY2018	497.49	－
3Q FY2017	776.50	－

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	¥million	¥million	%
3Q FY2018	3,060,719	922,412	28.8
FY2017	2,920,265	905,929	29.7

Reference: Total equity 3Q FY2018 ¥882,844 million FY2017 ¥868,700 million

2. Dividends

	Cash dividends per share				
	As of Jun.30	As of Sep.30	As of Dec.31	As of Mar.31	Total
	¥	¥	¥	¥	¥
FY2017	－	40.00	－	40.00	80.00
FY2018	－	50.00	－		
FY2018 (Forecasts)				50.00	100.00

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

3. Forecasts of Consolidated Financial Results for FY2018 (From April 1, 2018 to March 31, 2019)

(Percentage figures represent changes from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	¥million	%	¥million	%	¥million	%	¥million	%	¥
FY2018	4,270,000	14.5	169,000	(16.1)	163,000	(28.0)	60,000	(63.0)	295.86

Note: 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, 2018: **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 December 31, 2018: 208,000,000 As of March 31, 2018: 208,000,000

b) Number of shares of treasury stock

As of December 31, 2018: 10,657,837 As of March 31, 2018: 47,617

c) Weighted average number of shares outstanding during the period

Nine months ended December 31, 2018: 204,582,936

Nine months ended December 31, 2017: 186,832,683

*1 This document is out of the scope of quarterly review by certified public accountants or audit firms.

*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 5 “Explanation of Forecasts of Consolidated Financial Results for FY2018” of the Appendix.

Contents of the Appendix

1. Qualitative Information on the Consolidated Operating Results for the Third Quarter of FY2018..... 2

(1) Explanation of Operating Results..... 2

(2) Explanation of Financial Position..... 4

(3) Explanation of Forecasts of Consolidated Financial Results for FY2018 5

2. Consolidated Financial Statements for the Third Quarter of FY2018 and Major Notes..... 6

(1) Consolidated Quarterly Balance Sheets 6

(2) Consolidated Quarterly Statements of Income and Comprehensive Income 8

1) Consolidated Quarterly Statements of Income 8

2) Consolidated Quarterly Statements of Comprehensive Income 9

(3) Notes to the Consolidated Quarterly Financial Statements..... 10

1) Notes on the Assumption of a Going Concern..... 10

2) Notes on Significant Changes in Shareholders' Equity..... 10

3) Application of the Accounting Method Peculiar to the Preparation of the Quarterly Financial Statements 10

4) Additional Information 10

5) Consolidated Segment Information 11

1. Qualitative Information on the Consolidated Operating Results for the Third Quarter of FY2018

(1) Explanation of Operating Results

The overall domestic demand for petroleum products during the nine months ended December 31, 2018 fell slightly below the previous year's level, reflecting the declining trend of the demand structure.

Dubai crude oil prices had continued to trend up until the beginning of fall to reach over $70.0/bbl. However, adversely affected by uncertainty in the world economy attributable to the U.S.-China trade conflict, prices began to drop in November, and have subsequently hovered around the $50.0/bbl level since mid-December. Consequently, the average crude oil price from April to December 2018 was $71.3/bbl, an increase of $18.1/bbl against the same period of the previous year.

Demand for petrochemical products remained steady thanks mainly to brisk demand from Asia. The price for naphtha, a petrochemical raw material, grew by $163/ton against the same period last year to $652/ton.

(Crude oil price, naphtha price and exchange rate)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Change	
Dubai Crude Oil ($/bbl)	53.2	71.3	+18.1	+34.0%
Naphtha ($/ton)	489	652	+163	+33.3%
Exchange Rate (¥/$)	112.7	112.1	(0.6)	(0.5)%

The Idemitsu Group's net sales for the nine months ended December 31, 2018 were ¥3,340.1 billion, an increase of 25.4% compared with the same period of the preceding year, due mainly to increased import prices for crude oil.

Operating income was down 8.4% from a year earlier to ¥143.2 billion, largely due to higher fuel costs for refining and the effect of inventory valuation, despite positive factors such as higher prices for natural resources.

Net non-operating income increased by ¥2.6 billion compared with the same period of the previous year to ¥16.0 billion, owing primarily to increased interest and dividend income. As a result, ordinary income was ¥159.3 billion, down 6.2% from the same period of fiscal 2017.

Net extraordinary income shrank ¥9.6 billion from the corresponding period of the preceding year to ¥2.0 billion, due mainly to gain on the dissolution of the oil field premium contract recorded in the resources segment.

Income tax expenses, which consist of income taxes-current and income taxes-deferred, amounted to ¥54.1 billion, an increase of ¥21.1 billion from the same period of the previous year, chiefly because taxable income in fiscal 2017 was reduced by tax loss brought forward from previous years although income before income taxes fell for the nine months ended December 31, 2018.

Net income attributable to owners of the parent decreased by 29.8% compared with the same period of fiscal 2017 to ¥101.8 billion.

The performance of each business segment for the nine months ended December 31, 2018 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 2018, and those of domestic subsidiaries for the nine months ended December 31, 2018.

Net sales by segment

(Unit: ¥Billion)

Segment	3rd Quarter of FY2017	3rd Quarter of FY2018	Change	
			Amount	%
Petroleum products	2,047.1	2,626.3	+579.2	+28.3%
Petrochemical products	357.2	433.7	+76.5	+21.4%
Resources	209.2	229.2	+20.0	+9.5%
Others	50.8	50.9	+0.1	+0.1%
Total	2,664.4	3,340.1	+675.7	+25.4%

Operating income by segment

(Unit: ¥Billion)

Segment	3rd Quarter of FY2017	3rd Quarter of FY2018	Change	
			Amount	%
Petroleum products	77.4	52.0	(25.4)	(32.8) %
: excluding effect of inventory valuation	*53.9*	*36.6*	*(17.3)*	*(32.1) %*
Petrochemical products	30.1	24.5	(5.6)	(18.7) %
Resources	46.8	65.6	+18.7	+40.0%
Others	5.4	4.2	(1.3)	(23.3) %
Reconciliation	(3.3)	(2.9)	+0.4	—
Total	156.4	143.2	(13.2)	(8.4) %
: excluding effect of inventory valuation	*133.0*	*127.9*	*(5.1)*	*(3.8) %*

[Petroleum products segment]

Net sales of the petroleum products segment for the nine months ended December 31, 2018 increased by 28.3% compared to the corresponding period of the previous fiscal year to ¥2,626.3 billion, due partly to increases in import prices for crude oil. Operating income declined by 32.8% from a year earlier to ¥52.0 billion, chiefly on account of higher fuel costs for refining and the reduced effect of inventory valuation, despite higher product margins.

[Petrochemical products segment]

Net sales of the petrochemical products segment for the nine months ended December 31, 2018 were ¥433.7 billion, up 21.4% from the same period of fiscal 2017, due mainly to increases in naphtha prices. Operating income of the segment was ¥24.5 billion, down

18.7% from the same period of the prior year, hit mostly by higher fuel costs for production and stagnant markets for styrene monomer and other products.

[Resources segment]
(Oil exploration and production and the geothermal energy business)
Net sales of the oil exploration and production business and the geothermal energy business for the nine months ended December 31, 2018 were ¥58.6 billion, down 1.5% from the corresponding period of the previous year, due mainly to the effect of reduced sales volumes owing to the transfer of its assets in the UK North Sea, while operating income was ¥29.8 billion, up 62.6% from the same period of the preceding year due to increased crude oil prices.

(Coal business and others)
Net sales of the coal business and others for the nine months ended December 31, 2018 were ¥170.7 billion, up 13.9% compared with the same period of last year, due mainly to the effect of higher coal prices, and operating income was ¥35.8 billion, up 25.5% compared with the same period of the preceding year.

As a result, total net sales of the resources segment were ¥229.2 billion, up 9.5% and operating income was ¥65.6 billion, up 40.0% from the same period of the preceding year.

[Other segments]
Net sales of the other segments for the nine months ended December 31, 2018 were ¥50.9 billion, up 0.1% and operating income was ¥4.2 billion, down 23.3% compared with the same period of the preceding year.

(2) Explanation of Financial Position
1) Financial position
Summarized Consolidated Balance Sheets

(Unit: ¥Billion)

	FY2017	3rd Quarter of FY2018	Change
Current assets	1,208.2	1,343.0	+134.7
Fixed assets	1,712.0	1,717.7	+5.7
Total assets	2,920.3	3,060.7	+140.5
Current liabilities	1,161.6	1,326.4	+164.8
Non-current liabilities	852.7	811.9	(40.8)
Total liabilities	2,014.3	2,138.3	+124.0
Total net assets	905.9	922.4	+16.5
Total liabilities and net assets	2,920.3	3,060.7	+140.5

(a) Total assets
Total assets as of December 31, 2018 increased by ¥140.5 billion from the end of the previous fiscal year to ¥3,060.7 billion, owing primarily to increases in accounts receivable and inventories, despite the reduction of oil field premium assets as a result of the dissolution of the oil field premium contract that had been signed at the time of the acquisition of the Snorre field.

(b) Total liabilities

Total liabilities as of December 31, 2018 increased by ¥124.0 billion from the end of the previous fiscal year to ¥2,138.3 billion, owing primarily to increases in interest-bearing debts (¥1,117.3 billion as of December 31, 2018) due to temporary demand for operating capital caused mainly by the rise in crude oil prices.

(c) Total net assets

Total net assets as of December 2018 were ¥922.4 billion, an increase of ¥16.5 billion from the end of the preceding fiscal year, primarily owing to ¥101.8 billion of net income attributable to owners of the parent, which was partially offset by such factors as the acquisition of treasury shares, the payment of dividends, and reductions in foreign currency translation adjustments due to the appreciation of the yen. Consequently, the equity ratio as of December 31, 2018 was 28.8%, a decline of 0.9 percent points from 29.7% at the end of fiscal 2017.

(3) Explanation of Forecasts of Consolidated Financial Results for FY2018

The Company has revised the forecasts of the consolidated financial results for the year ending March 31, 2019 released on August 14, 2018, given the actual business results for the nine months ended December 31, 2018 and the latest forecasts. Please refer to the “Announcement on Revisions to Consolidated Full-year Earnings Forecasts for the Fiscal Year Ending March 2019” announced today for details the forecasts.

2. Consolidated Financial Statements for the Third Quarter of FY2018 and Major Notes

(1) Consolidated Quarterly Balance Sheets

(Unit: ¥Million)

	FY2017 (As of March 31, 2018)	3rd Quarter of FY2018 (As of December 31, 2018)
Assets		
Current assets:		
Cash and deposits	88,424	100,405
Notes and accounts receivable, trade	486,185	560,901
Inventories	535,636	574,490
Other	98,422	107,459
Less: Allowance for doubtful accounts	(432)	(284)
Total current assets	1,208,236	1,342,973
Fixed assets:		
Property, plant and equipment:		
Machinery and equipment, net	185,959	185,895
Land	579,743	577,665
Other, net	241,080	240,995
Total property, plant and equipment	1,006,782	1,004,556
Intangible fixed assets	20,768	22,795
Investments and other assets:		
Investment securities	422,436	431,286
Oil field premium assets	33,081	—
Other	229,024	259,169
Less: Allowance for doubtful accounts	(64)	(62)
Total investments and other assets	684,477	690,393
Total fixed assets	1,712,029	1,717,745
Total assets	2,920,265	3,060,719
Liabilities		
Current liabilities:		
Notes and accounts payable, trade	429,550	381,691
Short-term loans payable	142,873	267,963
Commercial paper	138,001	257,999
Current portion of bonds payable	25,000	10,000
Accounts payable, other	295,421	281,012
Income taxes payable	27,542	39,097
Provision for bonuses	8,111	3,214
Other	95,106	85,408
Total current liabilities	1,161,607	1,326,387
Non-current liabilities:		
Bonds payable	40,000	50,000
Long-term loans payable	546,171	529,818
Liability for employees' retirement benefits	13,972	11,527
Reserve for repair work	27,112	36,484
Asset retirement obligations	49,178	47,622
Oil field premium liabilities	39,274	—
Other	137,019	136,465
Total non-current liabilities	852,727	811,918
Total liabilities	2,014,335	2,138,306

(Unit: ¥Million)

	FY2017 (As of March 31, 2018)	3rd Quarter of FY2018 (As of December 31, 2018)
Net assets		
Shareholders' equity:		
Common stock	168,351	168,351
Capital surplus	130,875	130,876
Retained earnings	403,745	486,560
Treasury stock	(133)	(56,022)
Total shareholders' equity	702,839	729,765
Accumulated other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	10,105	6,662
Deferred gains (losses) on hedging activities, net	(4,083)	(5,395)
Surplus from land revaluation	158,171	157,292
Foreign currency translation adjustments	919	(6,667)
Defined retirement benefit plans	748	1,187
Total accumulated other comprehensive income	165,861	153,078
Noncontrolling interests	37,228	39,568
Total net assets	905,929	922,412
Total liabilities and net assets	2,920,265	3,060,719

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

1) Consolidated Quarterly Statements of Income

(Unit: ¥Million)

	3rd Quarter of FY2017 (From April 1, 2017 to December 31, 2017)	3rd Quarter of FY2018 (From April 1, 2018 to December 31, 2018)
Net sales	2,664,360	3,340,100
Cost of sales	2,297,224	2,975,282
Gross profit	367,135	364,817
Selling, general and administrative expenses	210,688	221,573
Operating income	156,446	143,244
Non-operating income:		
Interest income	3,230	4,670
Dividend income	2,332	3,158
Gain on foreign exchange, net	1,240	―
Equity in earnings of nonconsolidated subsidiaries and affiliates, net	17,090	15,091
Other	1,243	1,674
Total non-operating income	25,138	24,594
Non-operating expenses:		
Interest expense	7,454	6,535
Loss on foreign exchange, net	―	275
Other	4,259	1,746
Total non-operating expenses	11,714	8,557
Ordinary income	169,871	159,281
Extraordinary income:		
Gain on sales of fixed assets	1,665	1,519
Gain on sales of investment securities	203	―
Gain on sale of affiliate stock	12,136	187
Gain on dissolution of oil field premium contract	―	6,175
Other	15	629
Total extraordinary income	14,022	8,511
Extraordinary losses:		
Impairment loss on fixed assets	787	3,271
Loss on sales of fixed assets	133	142
Loss on disposals of fixed assets	1,349	1,286
Other	164	1,849
Total extraordinary losses	2,434	6,550
Income before income taxes	181,458	161,242
Income taxes	32,926	54,062
Net income	148,532	107,180
Net income attributable to noncontrolling interests	3,455	5,402
Net income attributable to owners of the parent	145,076	101,777

2) Consolidated Quarterly Statements of Comprehensive Income

(Unit: ¥Million)

	3rd Quarter of FY2017 (From April 1, 2017 to December 31, 2017)	3rd Quarter of FY2018 (From April 1, 2018 to December 31, 2018)
Net income	148,532	107,180
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	3,518	(2,890)
Deferred gains on hedging activities, net	1,981	(1,636)
Foreign currency translation adjustments	4,606	(8,570)
Defined retirement benefit plans	904	414
Share of other comprehensive income in equity method affiliates	(3,245)	256
Total other comprehensive income	7,764	(12,426)
Comprehensive income	156,297	94,753
Comprehensive income attributable to:		
Owners of the parent	151,336	89,893
Noncontrolling interests	4,960	4,860

(3) Notes to the Consolidated Quarterly Financial Statements

1) Notes on the Assumption of a Going Concern

None

2) Notes on Significant Changes in Shareholders' Equity

The Company resolved on its board of directors' meeting on July 10, 2018, to acquire its treasury shares with the upper limit of 12 million shares and ¥55 billion in aggregate. In accordance with this resolution, the Company had acquired 10,439,700 treasury shares amounting to the acquisition cost of ¥54,999 million up to December 31, 2018. Primarily due to these acquisitions, the Company's treasury stock increased by ¥55,889 million during the nine months ended December 31, 2018 to ¥56,022 million at December 31, 2018.

3) 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, 2018 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.

4) Additional Information

(Application of Partial Amendments of Accounting Standard for Tax Effect Accounting, etc.)

The Company adopted ASBJ Statement No.28, Partial Amendments of Accounting Standard for Tax Effect Accounting (February 16, 2018), etc. from the beginning of the current fiscal year. In accordance with this accounting standard, deferred tax assets are presented as investments and other assets and deferred tax liabilities are presented as non-current liabilities.

(Execution of Share Exchange Agreement with Showa Shell and Approvals at Extraordinary General Meetings of Shareholders)

On October 16, 2018, Showa Shell Sekiyu K.K. ("Showa Shell") and Idemitsu Kosan Co.,Ltd. ("Idemitsu Kosan") (collectively, the "Companies") respectively held the board of directors' meetings which resolved to execute an agreement (the "Share Exchange Agreement") regarding the share exchange (the "Share Exchange") in which Idemitsu Kosan becomes a wholly owning parent company and Showa Shell becomes a wholly owned subsidiary company, subject to the approvals from the Companies' shareholders' meetings and the relevant authorities. Based on the resolutions, the Companies entered into the Share Exchange Agreement. The Companies had obtained all the approvals from the relevant authorities by December 12, 2018 and the Share Exchange Agreement was approved by the respective extraordinary general meetings of the shareholders of the Companies held on December 18, 2018.

5) Consolidated Segment Information

Third Quarter of FY2017 (From April 1, 2017 to December 31, 2017)

(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	2,047,070	357,200	209,248	2,613,520	50,840	2,664,360	—	2,664,360
Inter-segment	8,178	3,323	746	12,248	2,615	14,863	(14,863)	—
Total	2,055,249	360,524	209,995	2,625,768	53,455	2,679,224	(14,863)	2,664,360
Operating income	77,378	30,110	46,832	154,321	5,431	159,752	(3,305)	156,446

Notes:

1. The segment "Others" refers to the total of other business segments that are not included in the reportable segments, including Showa Shell Sekiyu K.K., 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 is reconciled to the amount of operating income in the consolidated quarterly statement of income.
4. Although not included in the calculation of the operating income of the reportable segments, equity in earnings of nonconsolidated subsidiaries and affiliates is provided to and used by the board of directors on a regular basis. The equity in earnings of nonconsolidated subsidiaries and affiliates of Showa Shell Sekiyu K.K. is included in the segment "Others".
   (Petroleum products) ¥ (1,560) million (Petrochemical products) ¥6,422 million
   (Resources) ¥1,656 million (Others) ¥10,575 million (Reconciliation) ¥ (2) million

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

There is no significant item during the period.

Third Quarter of FY2018 (From April 1, 2018 to December 31, 2018)

(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	2,626,319	433,658	229,223	3,289,201	50,898	3,340,100	—	3,340,100
Inter-segment	12,801	20,928	690	34,420	3,482	37,903	(37,903)	—
Total	2,639,120	454,587	229,914	3,323,622	54,380	3,378,003	(37,903)	3,340,100
Operating income	51,979	24,466	65,559	142,005	4,166	146,171	(2,927)	143,244

Notes:

1. The segment "Others" refers to the total of other business segments that are not included in the reportable segments, including Showa Shell Sekiyu K.K., 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 is reconciled to the amount of operating income in the consolidated quarterly statement of income.
4. Although not included in the calculation of the operating income of the reportable segments, equity in earnings of nonconsolidated subsidiaries and affiliates is provided to and used by the board of directors on a regular basis. The equity in earnings of nonconsolidated subsidiaries and affiliates of Showa Shell Sekiyu K.K. is included in the segment "Others".
   (Petroleum products) ¥ (1,810) million (Petrochemical products) ¥8,416 million
   (Resources) ¥1,282 million (Others) ¥7,175 million (Reconciliation) ¥27 million

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

There is no significant item during the period.