Presentation on Results for the 3rd Quarter FY 2018

Idemitsu Kosan Co.,Ltd.

February 14, 2019

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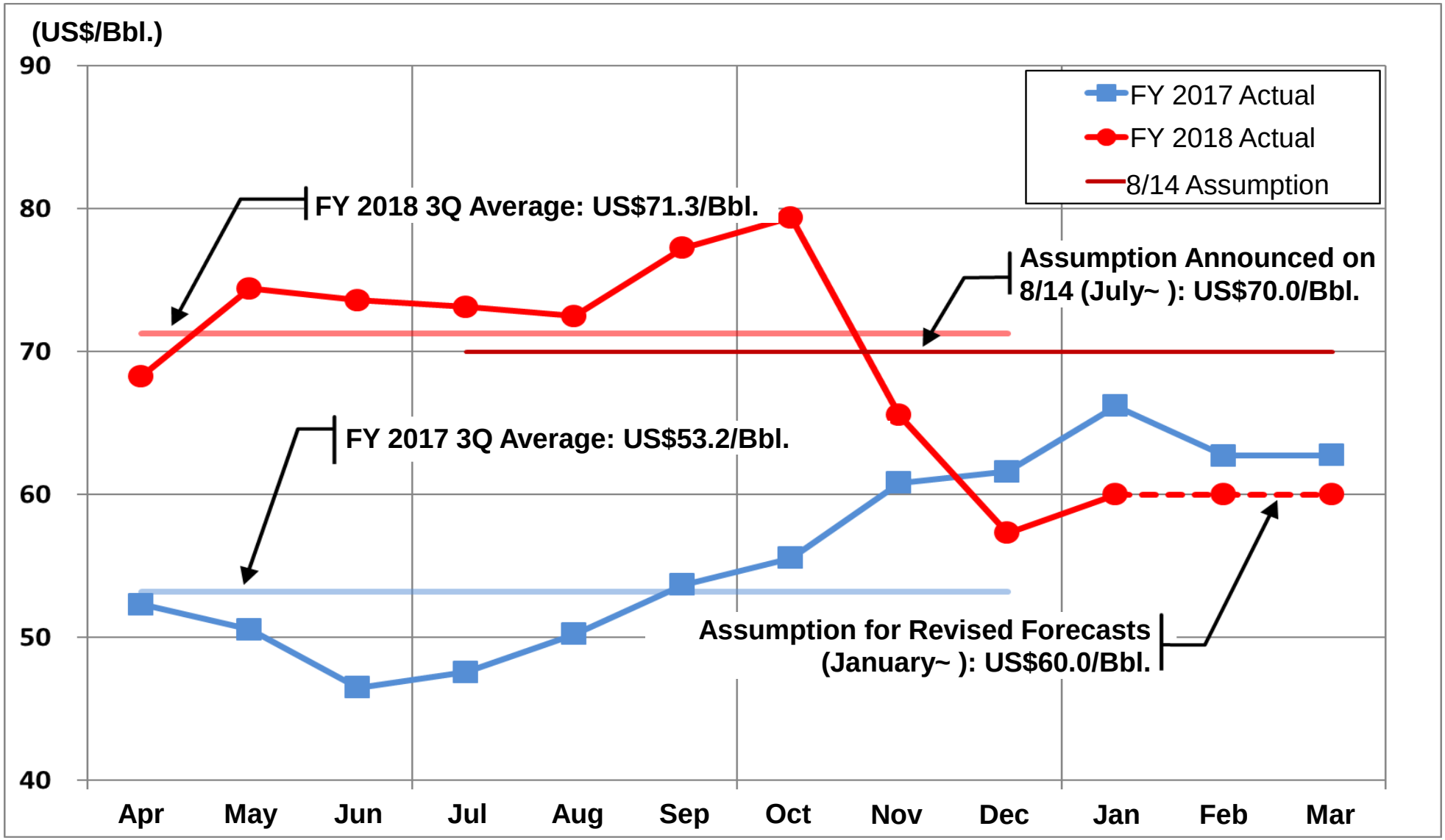
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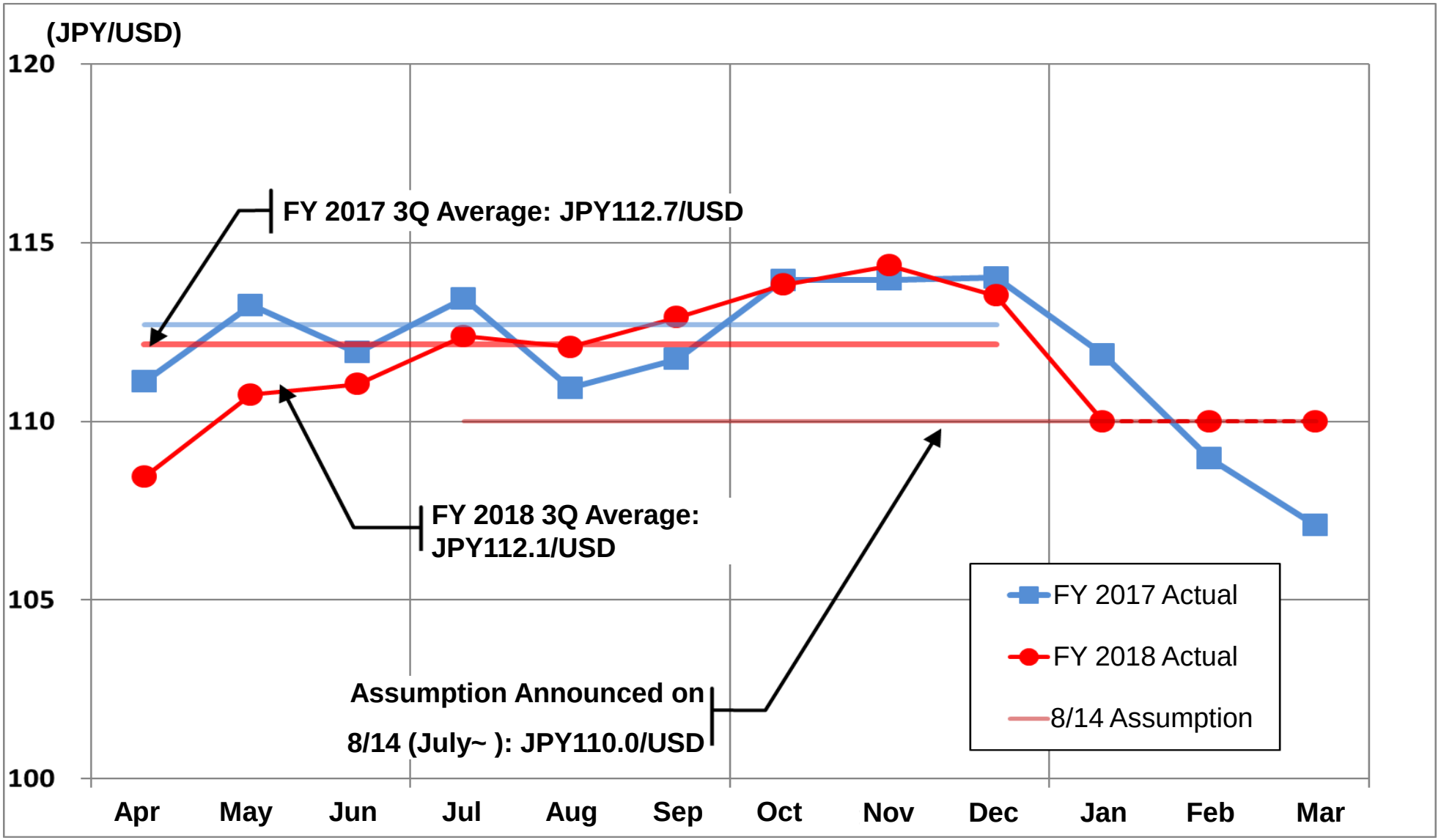
<Monthly Dubai Crude Oil Price Trends and Assumptions for Performance Forecasts>



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JPY/USD Exchange Rate (TTS) Trends

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Overview

<FY 2018 3rd Quarter Results>

■Operating income decreased by ¥13.2 billion year-on-year to ¥143.2 billion despite increased profits from the resources segment following an increase in resource prices, mainly due to increased costs in the petroleum products segment and decreased inventory impact following the sharp decline in crude oil prices since November 2018

■Ordinary income decreased by ¥10.6 billion year-on-year to ¥159.3 billion, leading net income attributable to owners of the parent to decrease by ¥43.3 billion year-on-year, to ¥101.8 billion

<Forecast for FY 2018 Performance>

■We forecast operating income of ¥169 billion (¥51 billion downward revision), mainly due to zero forecasted inventory impact following the revision of crude oil price assumptions and decreased domestic petroleum refining margins due to the declined crude oil prices

■We forecast ordinary income of ¥163 billion (¥87 billion downward revision) due to the above as well as a decrease in equity in earnings of affiliates, among other factors. As we will also incur costs for the remedial measures toward the business integration, we forecast net income attributable to owners of the parent of ¥60 billion (¥80 billion downward revision)

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1. FY 2018 3rd Quarter Results

(1) Overview

1) Crude Oil / Exchange Rates

(Units: $/Bbl., $/Ton, ¥/$)

	FY2017 3Q	FY2018 3Q	Change	
Crude Oil (DB FOB)	53.2	71.3	18.1	34.0%
Crude Oil (Brent)	51.9	72.1	20.2	38.9%
Naphtha Price (Customs)	489	652	163	33.3%
Thermal Coal (NEWC)	85.7	108.0	22.3	26.0%
Exchange Rate (TTS)	112.7	112.1	(0.6)	(0.5%)

* Brent prices and thermal coal prices are averages based on the calendar year (January-September).

2) Consolidated Income Statement (Summary)

(Units: ¥ billions)

	FY2017 3Q	FY2018 3Q	Change	
Net Sales	2,664.4	3,340.1	675.7	25.4%
Operating Income	156.4	143.2	(13.2)	(8.4%)
(Inventory impact)	*23.4*	*15.3*	*(8.1)*	*(34.6%)*
(Excluding inventory impact)	*133.0*	*127.9*	*(5.1)*	*(3.8%)*
Non-operating Income/Loss	13.4	16.0	2.6	19.5%
Ordinary Income	169.9	159.3	(10.6)	(6.2%)
Extraordinary Gain/Loss	11.6	2.0	(9.6)	(83.1%)
Net Income Attributable to Owners of the Parent	145.1	101.8	(43.3)	(29.8%)
(Excluding inventory impact)	*128.9*	*91.1*	*(37.8)*	*(29.3%)*

* 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 3Q	FY2018 3Q	Change	
Petroleum Products	77.4	52.0	(25.4)	(32.8%)
(Excluding inventory impact)	*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%
Oil Exploration and Production	*18.3*	*29.8*	*11.5*	*62.6%*
Coal, etc.	*28.5*	*35.8*	*7.3*	*25.5%*
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 inventory impact)	*133.0*	*127.9*	*(5.1)*	*(3.8%)*

*** 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) Factor Analysis for Year-on-year Change in Operating Income

(Units: ¥ billions)

Petroleum Products (25.4)

Increase in Product Margins, etc.	+12.3	Increased Refinery Fuel Costs, etc.	(29.6)
Inventory Impact	(8.1)		

Petrochemical Products (5.6)

Decrease in Product Margins	(2.0)	Manufacturing fuel costs, etc.	(3.6)

Oil Exploration and Production +11.5

Price/Volume-related	+11.6	Exploration Costs, Fx, etc.	(0.1)

Coal, etc. / Others +6.4

Price/Volume-related	+11.3	Fx, etc.	(3.9)
Others/Reconciliation	(1.0)		

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2. Forecast for FY 2018 Performance

(1) Overview

1) Crude Oil / Exchange Rates

(Units: $/Bbl., $/Ton, ¥/$)

	Aug 14 Forecast	Revised Forecast	Difference		Assumption (Jan~)
Crude Oil (DB FOB)	70.5	68.4	(2.1)	(3.0%)	60.0
Crude Oil (Brent)	71.8	71.0	(0.7)	(1.0%)	—
Naphtha Price (Customs)	633	619	(14)	(2.1%)	522
Thermal Coal (NEWC)	106.4	107.3	0.9	0.8%	—
Exchange Rate (TTS)	110.0	111.6	1.6	1.4%	110.0

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

2) Consolidated Income Statement (Summary)

(Units: ¥ billions)

	Aug 14 Forecast	Revised Forecast	Difference	
Net Sales	4,280.0	4,270.0	(10.0)	(0.2%)
Operating Income	220.0	169.0	(51.0)	(23.2%)
(Inventory impact)	*22.5*	*0.0*	*(22.5)*	—
(Excluding inventory impact)	*197.5*	*169.0*	*(28.5)*	*(14.4%)*
Non-operating Income/Loss	30.0	(6.0)	(36.0)	—
Ordinary Income	250.0	163.0	(87.0)	(34.8%)
Extraordinary Gain/Loss	(18.0)	(40.0)	(22.0)	—
Net Income Attributable to Owners of the Parent	140.0	60.0	(80.0)	(57.1%)
(Excluding inventory impact)	*124.0*	*60.0*	*(64.0)*	*(51.6%)*

* 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)

	Aug 14 Forecast	Revised Forecast	Difference	
Petroleum Products	97.0	47.0	(50.0)	(51.5%)
(Excluding inventory impact)	*74.5*	*47.0*	*(27.5)*	*(36.9%)*
Petrochemical Products	39.0	34.0	(5.0)	(12.8%)
Resources	80.0	85.0	5.0	6.3%
Oil Exploration and Production	*33.0*	*36.0*	*3.0*	*9.1%*
Coal, etc.	*47.0*	*49.0*	*2.0*	*4.3%*
Others	8.0	7.0	(1.0)	(12.5%)
Reconciliation	(4.0)	(4.0)	0.0	—
Total	220.0	169.0	(51.0)	(23.2%)
(Excluding inventory impact)	197.5	169.0	(28.5)	(14.4%)

*** 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) Factor Analysis for Change in Operating Income (vs. 8/14 Forecast)

(Units: ¥ billions)

Petroleum Products (50.0)

Decrease in Product Margins, etc.	(22.0)	Increased Refinery Fuel Costs, etc.	(5.5)
Inventory Impact	(22.5)		

Petrochemical Products (5.0)

Decrease in Product Margins, etc.	(5.0)

Oil Exploration and Production +3.0

Exploration Costs, etc.	+3.0

Coal, etc. / Others +1.0

Price-related, etc.	+2.0	Others/Reconciliation	(1.0)

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1. Financial Reporting

(1) – 1. FY2018 3rd Quarter Net Sales by Segment

(Units: ¥ billions)

	FY2017 3Q	FY2018 3Q	Change	
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%
Oil Exploration and Production	*59.5*	*58.6*	*(0.9)*	*(1.5%)*
Coal, etc.	*149.8*	*170.7*	*20.9*	*13.9%*
Others/Reconciliation	50.8	50.9	0.1	0.1%
Total	2,664.4	3,340.1	675.7	25.4%

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1. Financial Reporting

(1) – 2. FY2018 Net Sales Forecast by Segment

(Units: ¥ billions)

	Aug 14 Forecasts	Revised Forecast	Difference	
Petroleum Products	3,340.0	3,330.0	(10.0)	(0.3%)
Petrochemical Products	570.0	570.0	0.0	—
Resources	300.0	300.0	0.0	—
Oil Exploration and Production	*90.0*	*90.0*	*0.0*	—
Coal, etc.	*210.0*	*210.0*	*0.0*	—
Others/Reconciliation	70.0	70.0	0.0	—
Total	4,280.0	4,270.0	(10.0)	(0.2%)

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1. Financial Reporting

(2) Extraordinary Gains/Losses

(Units: ¥ billions)

	FY2017 3Q	FY2018 3Q	Change
Gain on Sale of Fixed Assets	1.7	1.5	(0.1)
Gain on Sale of Affiliate Stock	12.1	0.2	(11.9)
Other	0.2	6.8	6.6
Total Extraordinary Gains	14.0	8.5	(5.5)
Loss on Sale or Depletion of Fixed Assets	1.5	1.4	(0.1)
Impairment Losses	0.8	3.3	2.5
Other	0.2	1.8	1.7
Total Extraordinary Losses	2.4	6.5	4.1
Total Extraordinary Gains/Losses	11.6	2.0	(9.6)

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1. Financial Reporting

(3) Consolidated Balance Sheet

(Units: ¥ billions)

	3/31/2018	12/31/2018	Change
Cash and Deposits	88.4	100.4	12.0
Receivables	486.2	560.9	74.7
Inventory	535.6	574.5	38.9
Other Current Assets	98.0	107.2	9.2
Total Current Assets	1,208.2	1,343.0	134.7
Tangible Fixed Assets	1,006.8	1,004.6	(2.2)
(Land)	579.7	577.7	(2.1)
(Other)	427.0	426.9	(0.1)
Other Fixed Assets	705.2	713.2	7.9
Total Fixed Assets	1,712.0	1,717.7	5.7
Total Assets	2,920.3	3,060.7	140.5

	3/31/2018	12/31/2018	Change
Payables	429.6	381.7	(47.9)
Short-term Borrowings	305.9	536.0	230.1
Other Current Liabilities	426.2	408.7	(17.4)
Total Current Liabilities	1,161.6	1,326.4	164.8
Long-term Borrowings	586.2	579.8	(6.4)
Other Fixed Liabilities	266.6	232.1	(34.5)
Total Fixed Liabilities	852.7	811.9	(40.8)
Total Liabilities	2,014.3	2,138.3	124.0
Shareholders' Equity	702.8	729.8	26.9
Other Comprehensive Income	165.9	153.1	(12.8)
Noncontrolling Interests	37.2	39.6	2.3
Total Net Assets	905.9	922.4	16.5
Total Liabilities and Net Assets	2,920.3	3,060.7	140.5

Total Interest-bearing Debt	893.6	1,117.3	223.7
Equity Ratio	29.7%	28.8%	(0.9%)
Net D/E Ratio	0.93	1.15	0.22

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2. Sensitivity

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

Petroleum Products	Increase 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 Appreciation on FY Earnings

Petroleum Products	Decrease 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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3. Sales and Production

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

（Units:Thousand KL,%）

	FY 2017 3Q	FY 2018 3Q	Change	
Gasoline	6,043	5,897	(146)	(2.4%)
(Premium-Unleaded)	641	601	(39)	(6.2%)
(Regular-Unleaded)	5,402	5,296	(106)	(2.0%)
Naphtha	220	274	54	24.3%
Jet Fuel	1,406	1,511	106	7.5%
Kerosene	1,426	1,178	(248)	(17.4%)
Diesel Oil	4,681	4,569	(112)	(2.4%)
Heavy Fuel Oil A	1,606	1,411	(194)	(12.1%)
Heavy Fuel Oil C	1,767	1,613	(155)	(8.7%)
Total Domestic Sales Volume	17,148	16,452	(696)	(4.1%)
Exported Volume	2,419	2,573	154	6.4%
(General Exports)	934	995	61	6.5%
Total Sales Volume	19,567	19,025	(542)	(2.8%)

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3. Sales and Production

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

(Units:Thousand tons, %)

	FY 2017 3Q	FY 2018 3Q	Change	
Petrochemical Products-Total	2,528	2,635	108	+4.3%
(Basic Chemicals)	2,493	2,597	104	+4.2%
(Performance Chemicals)	35	38	3	+9.9%

(1)－3.Sales Volume (Lubricants)

（Units:Thousand KL,%）

	FY 2017 3Q	FY 2018 3Q	Change	
Lubricants	920	955	35	3.8%

*Includes sales of overseas licenses

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3. Sales and Production

(1)－4.Oil Exploration & Production – Production Volume (including Gas)

(Units:Thousand BOED)

	FY 2017 3Q	FY 2018 3Q	Change	
Norway	34.1	27.2	(6.9)	(20.3%)
United Kingdom	4.4	0.0	(4.4)	(100.0%)
Total('000BOED)	38.5	27.2	(11.3)	(29.4%)
Total('000BOE)	10,500	7,416	(3,084)	(29.4%)

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

(1)－5. Coal – Production Volume

(Units:Thousand tons)

	FY 2017 3Q	FY 2018 3Q	Change	
Ensham	3,037	3,318	281	9.3%
Muswellbrook	1,058	1,163	105	9.9%
Boggabri	4,291	4,053	(238)	(5.5%)
Tarawonga	526	204	(322)	(61.1%)
Sub Total	8,912	8,738	(174)	(1.9%)
Malinau	848	764	(85)	(10.0%)
Total Production Volume	9,760	9,502	(258)	(2.6%)

*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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3. Sales and Production

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

(Units:Thousand KL,%)

	Aug 14 Forecast	Revised Forecast	Difference	
Gasoline	7,710	7,730	20	0.3%
(Premium-Unleaded)	810	790	(20)	(2.5%)
(Regular-Unleaded)	6,900	6,940	40	0.6%
Naphtha	390	350	(40)	(10.3%)
Jet Fuel	1,900	1,965	65	3.4%
Kerosene	2,390	2,270	(120)	(5.0%)
Diesel Oil	6,210	6,020	(190)	(3.1%)
Heavy Fuel Oil A	2,230	2,085	(145)	(6.5%)
Heavy Fuel Oil C	2,240	2,190	(50)	(2.2%)
Total Domestic Sales Volume	23,070	22,610	(460)	(2.0%)
Exported Volume	3,670	3,595	(75)	(2.0%)
(General Exports)	1,610	1,510	(100)	(6.2%)
Total Sales Volume	26,740	26,205	(535)	(2.0%)

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3. Sales and Production

(2)－2.Sales Forecasts (Petrochemical Products: Non-consolidated)

(Units:Thousand tons, %)

	Aug 14 Forecast	Revised Forecast	Difference	
Petrochemical Products-Total	3,600	3,540	(60)	(1.7%)
(Basic Chemicals)	3,550	3,490	(60)	(1.7%)
(Performance Chemicals)	50	50	0	0.0%

(2)－3.Sales Forecasts (Lubricants)

（Units:Thousand KL,%）

	Aug 14 Forecast	Revised Forecast	Difference	
Lubricants	1,280	1,280	0	0.0%

*Includes sales of overseas licenses

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3. Sales and Production

(2)－4.Oil Exploration & Production – Production Volume Forecasts (including Gas)

(Units:Thousand BOED)

	Aug 14 Forecast	Revised Forecast	Difference	
Norway	27.0	26.8	(0.2)	(0.9%)
Total('000BOE)	9,870	9,780	(90)	(0.9%)

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

(2)－5. Coal – Production Volume Forecasts

(Units:Thousand tons)

	Aug 14 Forecast	Revised Forecast	Difference	
Ensham	4,450	4,450	0	0.0%
Muswellbrook	1,500	1,510	10	0.7%
Boggabri	5,650	5,300	(350)	(6.2%)
Tarawonga	160	200	40	-
Sub Total	11,760	11,460	(300)	(2.6%)
Malinau	1,070	1,070	0	0.0%
Total Production Volume	12,830	12,530	(300)	(2.3%)

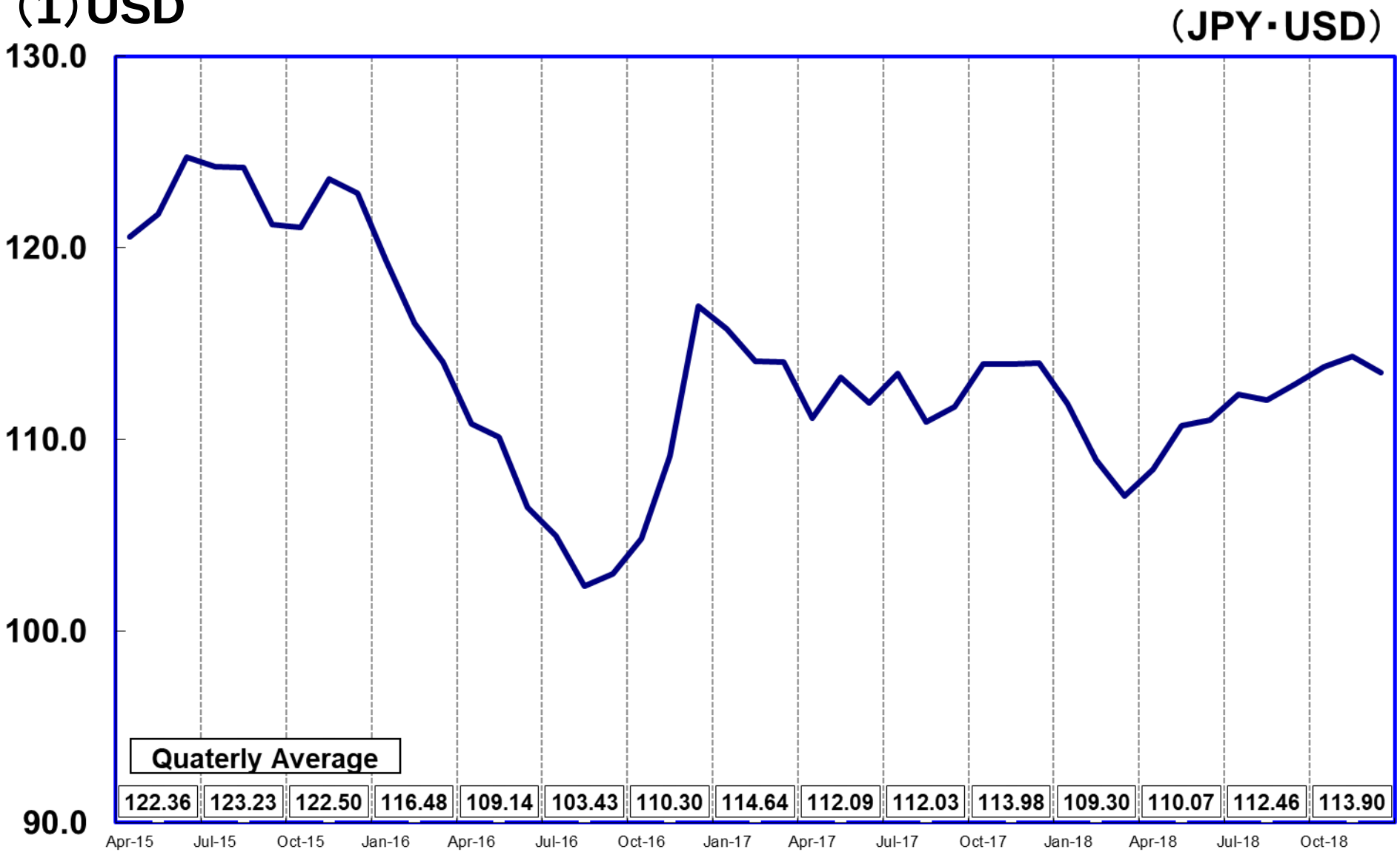
*Figures based on interst owned by Idemitsu Group

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

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4. Foreign Exchange

(1)USD



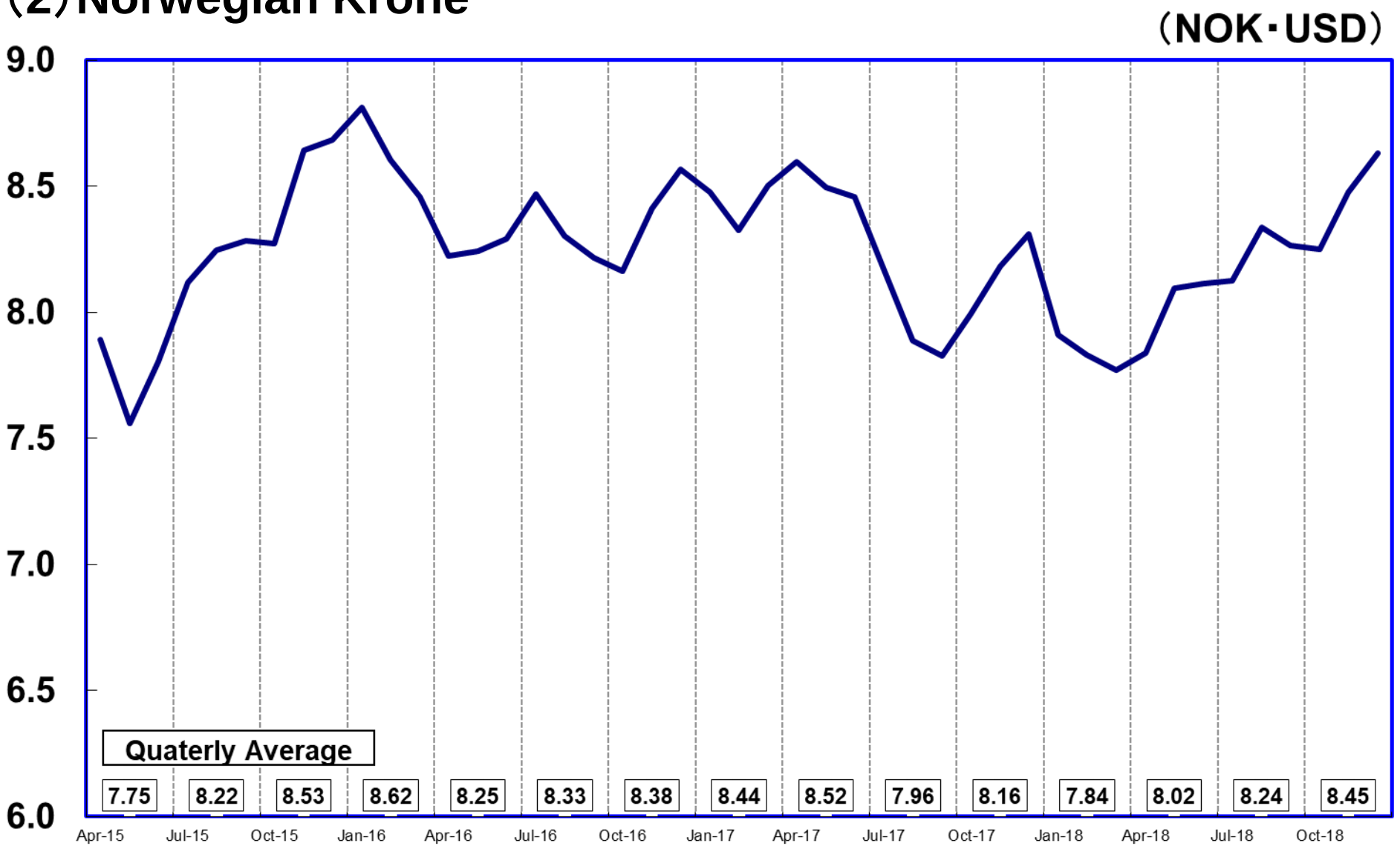
Quaterly Average

122.36	123.23	122.50	116.48	109.14	103.43	110.30	114.64	112.09	112.03	113.98	109.30	110.07	112.46	113.90

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4. Foreign Exchange

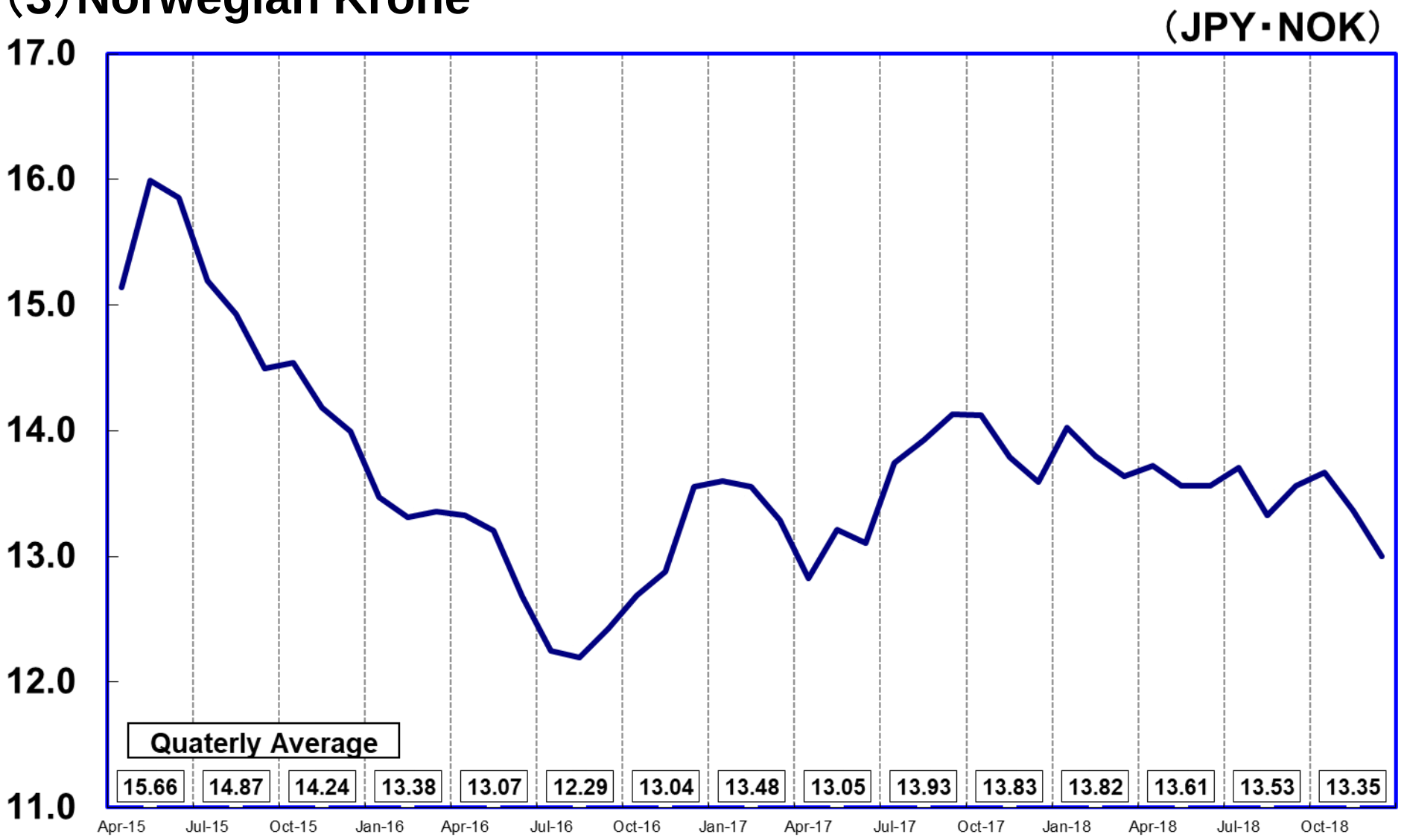
(2) Norwegian Krone



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4. Foreign Exchange

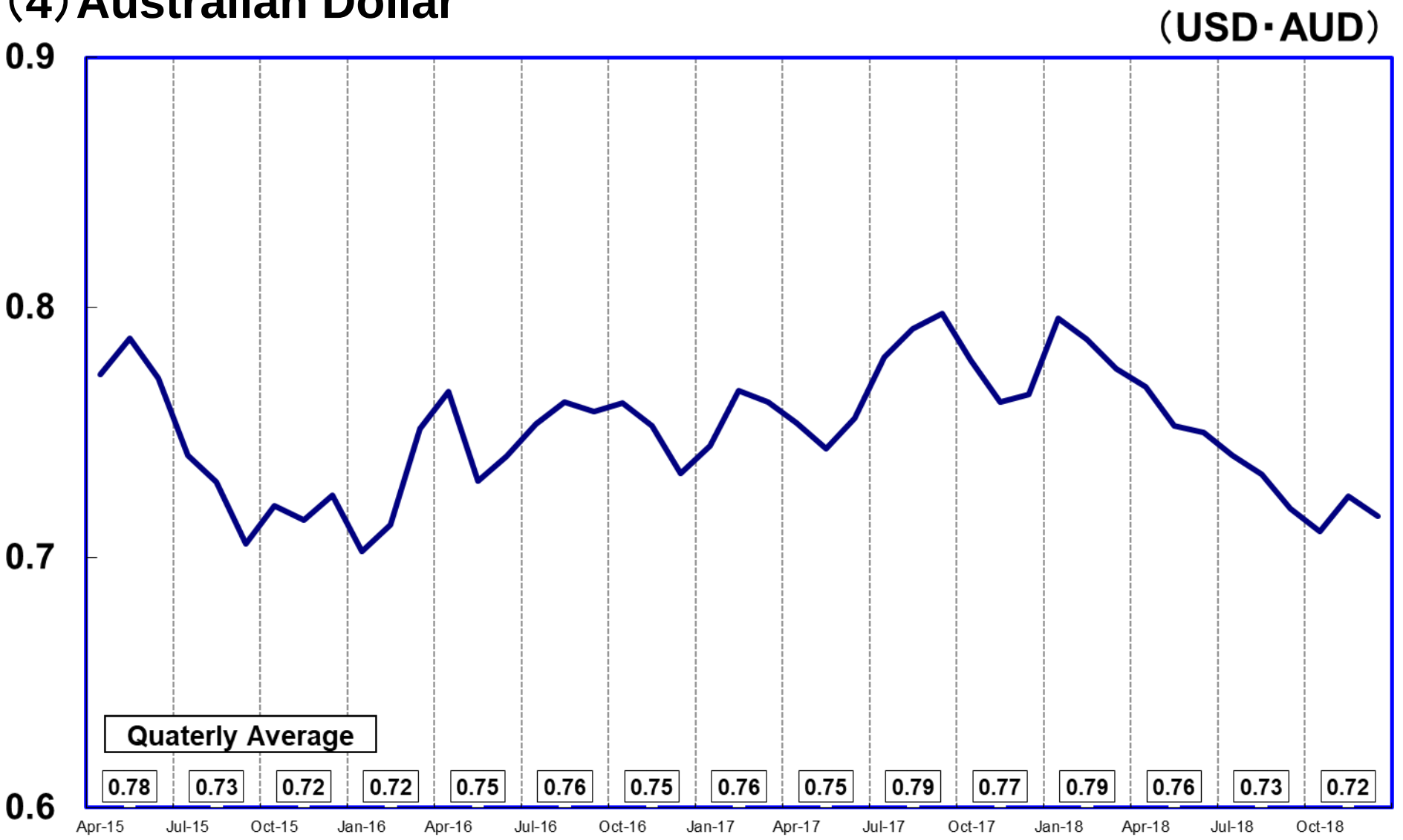
(3) Norwegian Krone



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4. Foreign Exchange

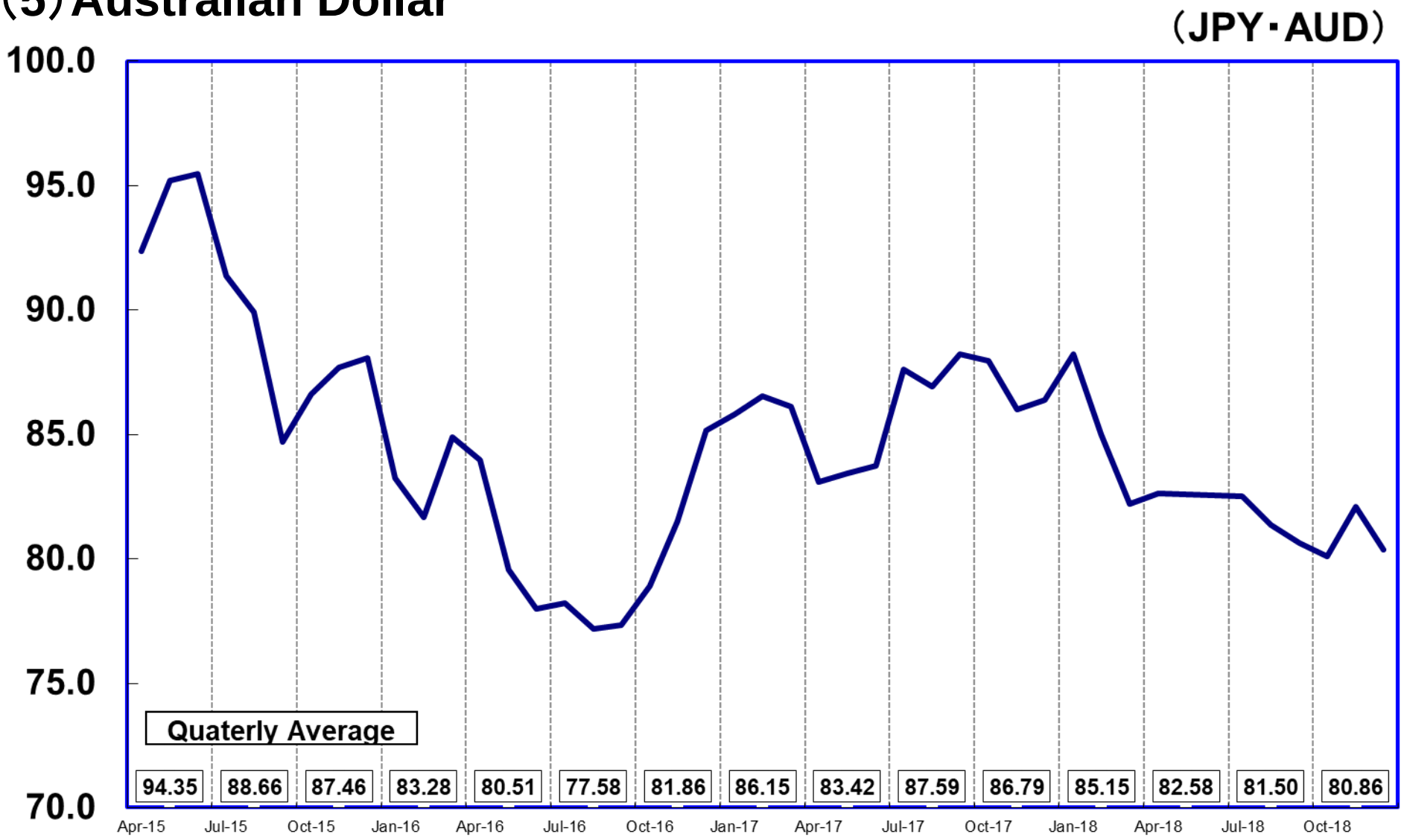
(4) Australian Dollar



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4. Foreign Exchange

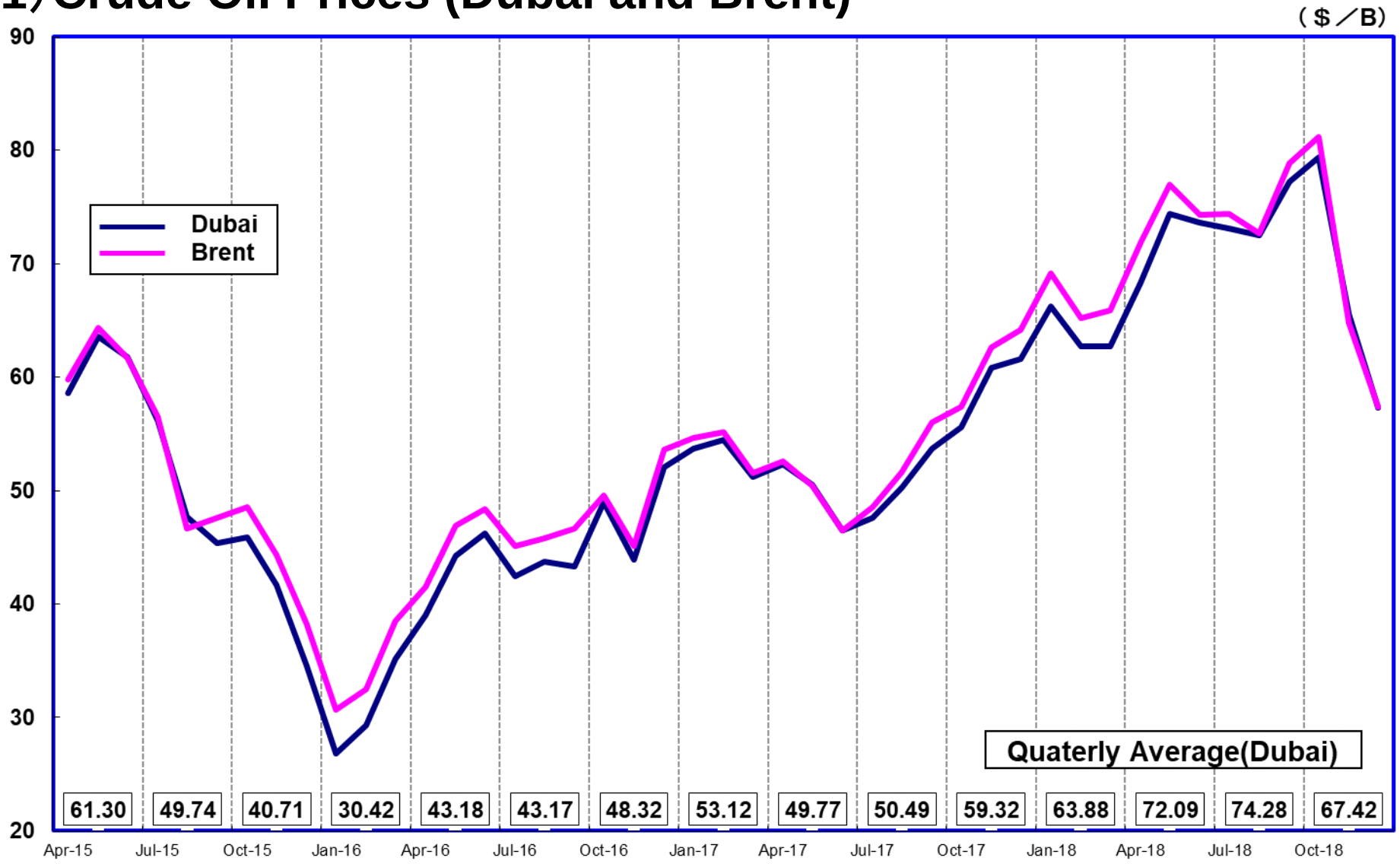
(5) Australian Dollar



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5. Market Conditions

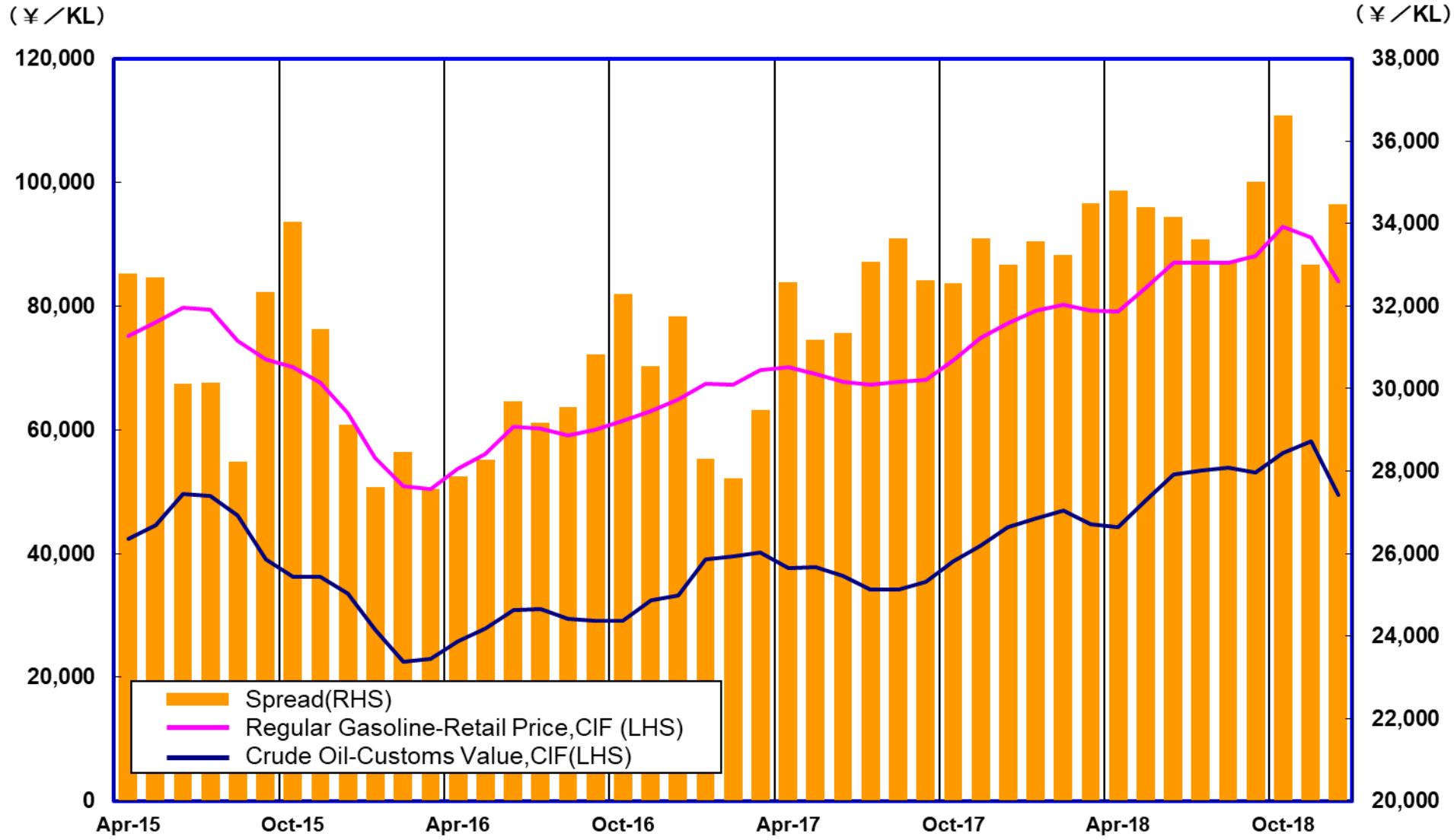
(1) Crude Oil Prices (Dubai and Brent)



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5. Market Conditions

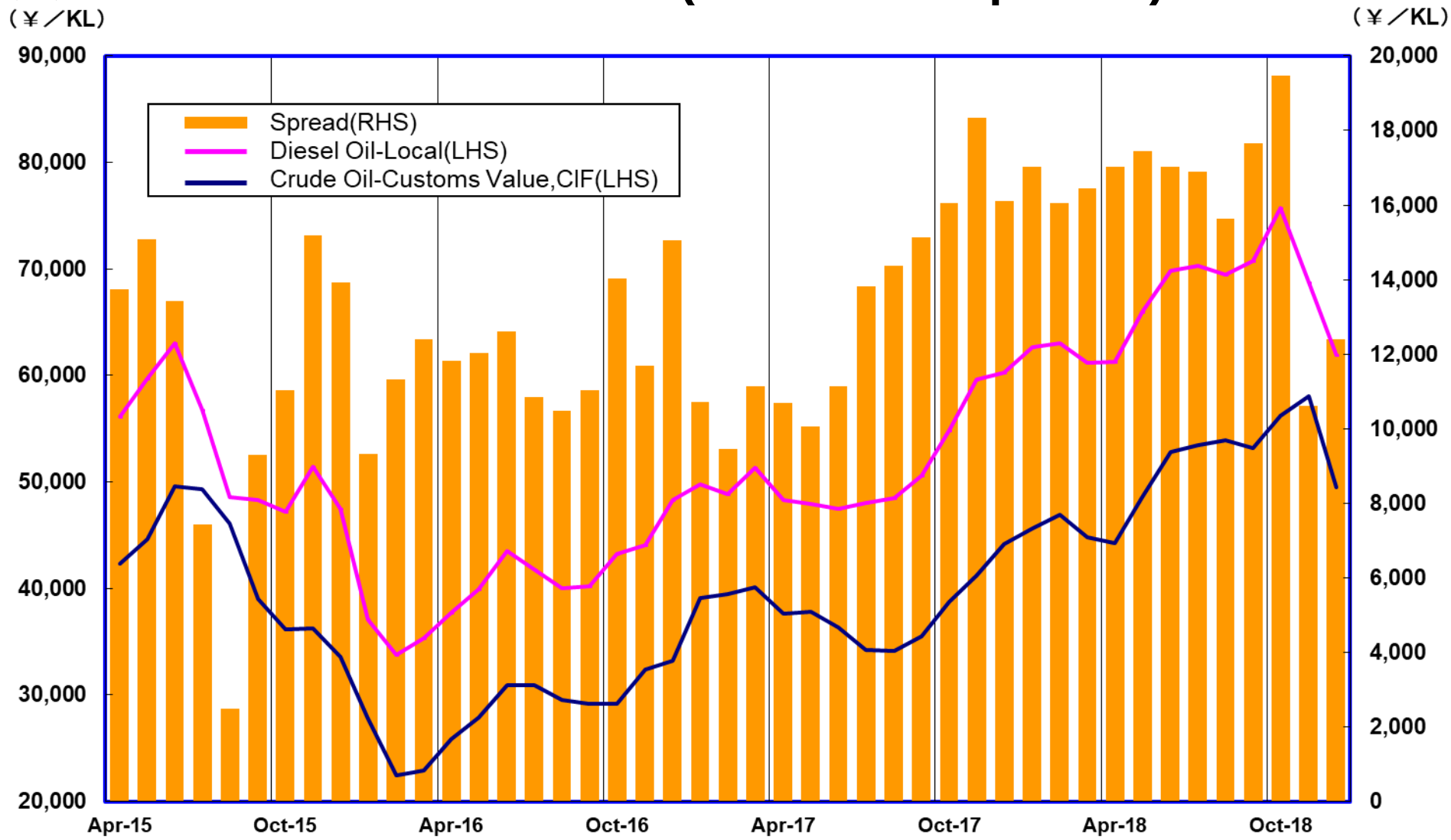
(2) Gasoline, Crude Oil CIF (Prices and Spreads)



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5. Market Conditions

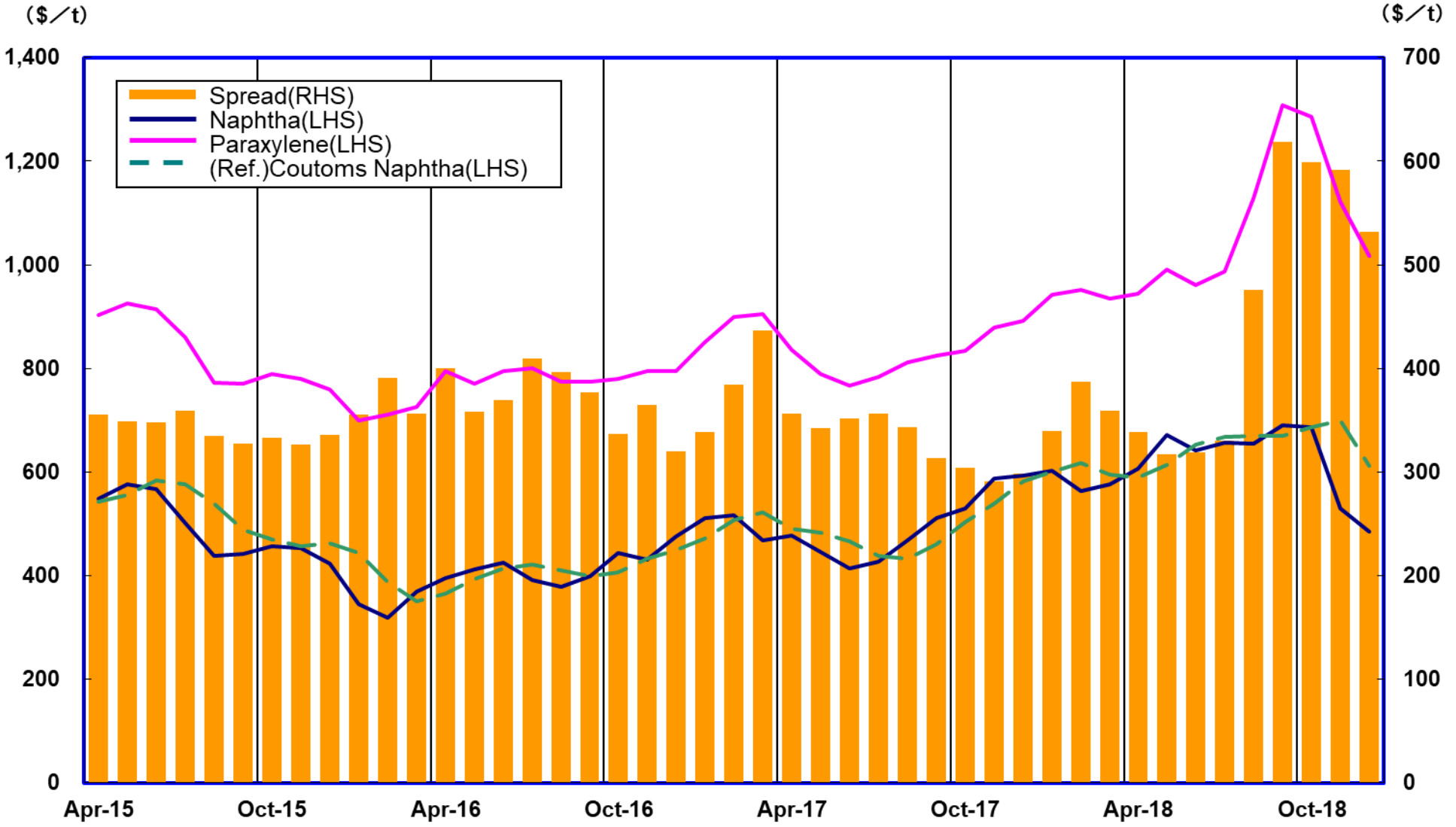
(3) Diesel Oil – Crude Oil CIF (Prices and Spreads)



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5. Market Conditions

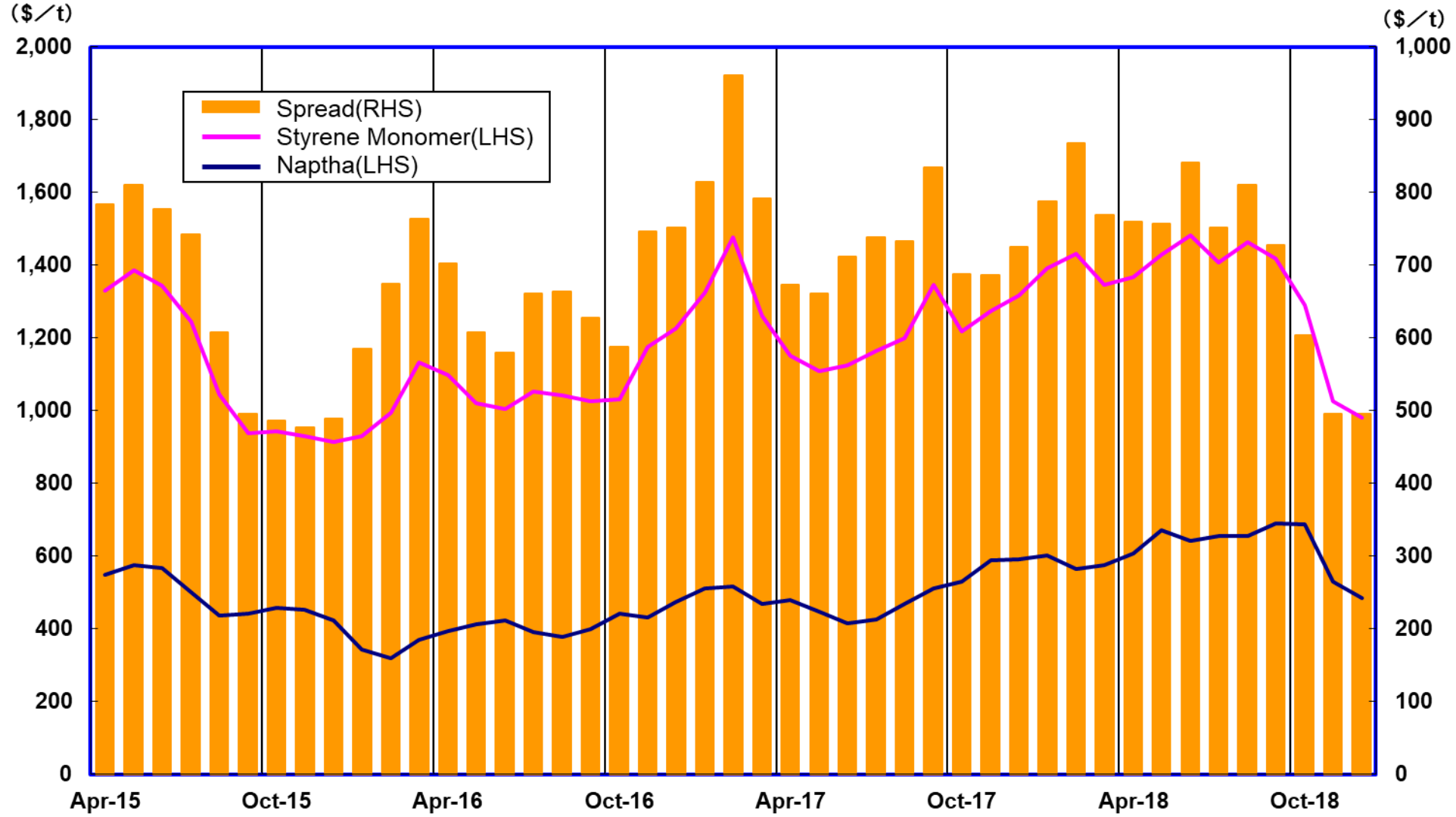
(4) Paraxylene, Naptha (Prices and Spreads)



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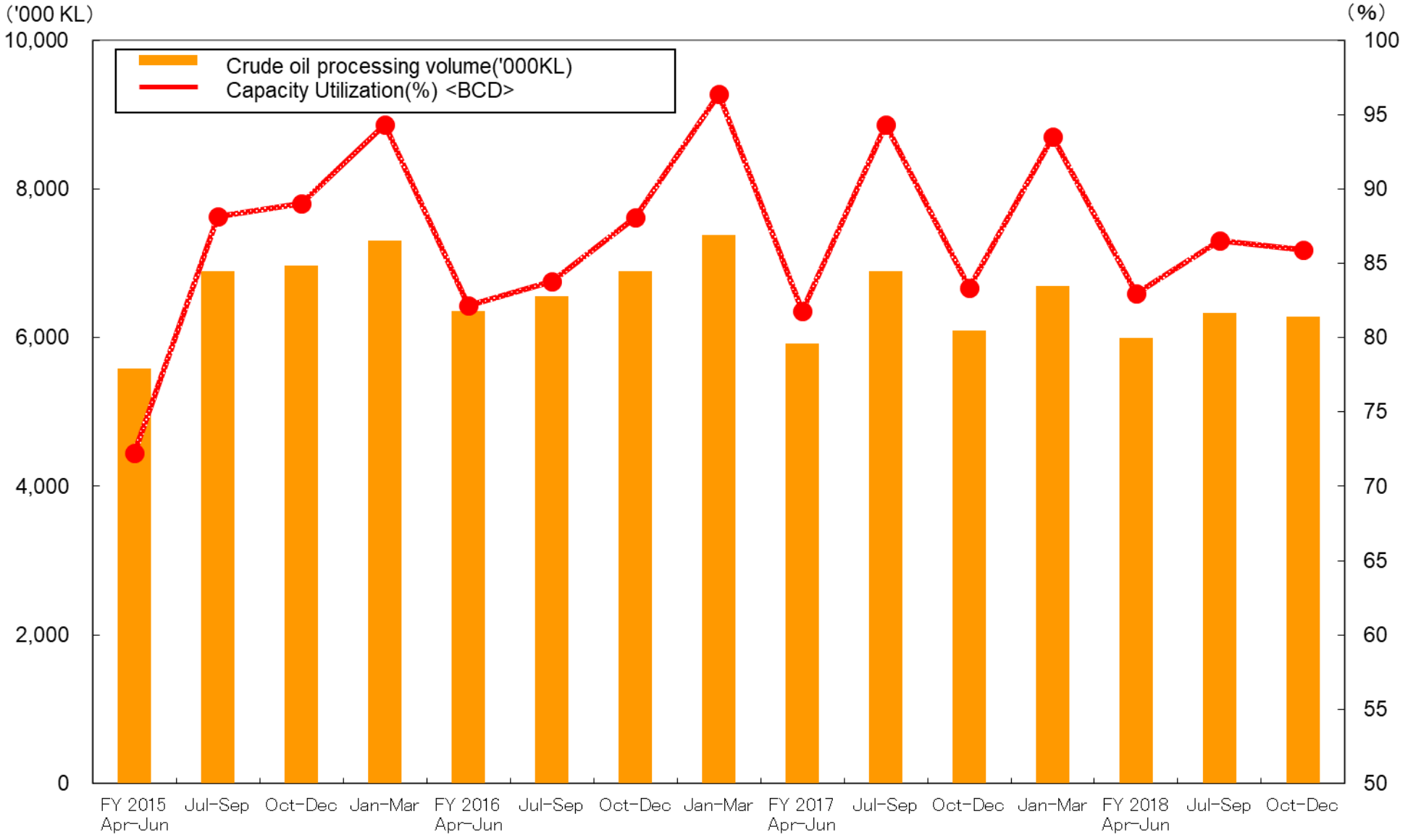
5. Market Conditions

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



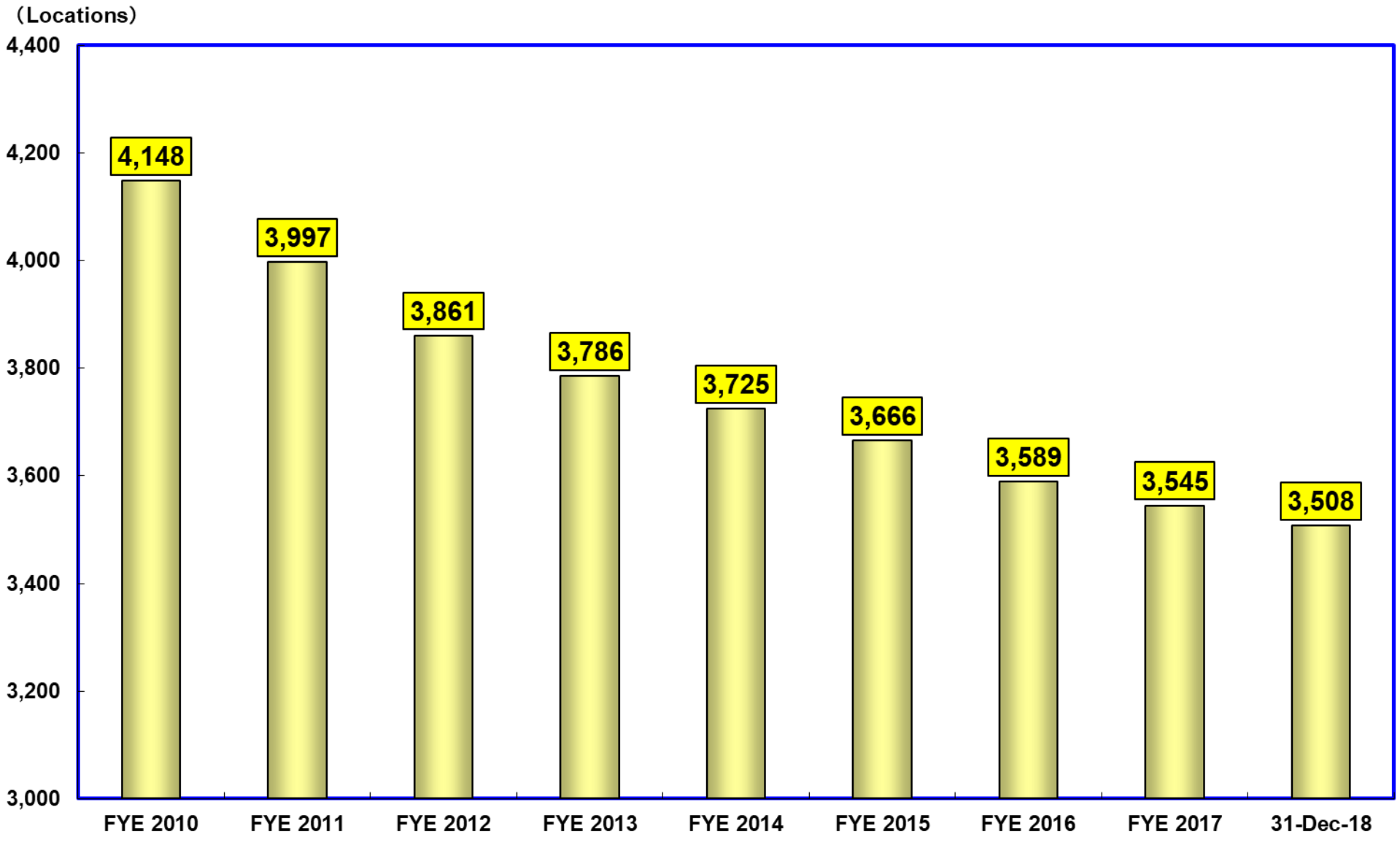
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6. Capacity Utilization at Refineries



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7. 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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