Presentation on Results for FY2019

Idemitsu Kosan Co.,Ltd.

May 26, 2020

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FY 2019 4th Quarter Topics

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Topics

1. Impact of decline in crude oil

・Reported negative inventory impact and time lag effects due to a sharp decline in crude oil prices after March.

2. Impact of COVID-19

・ Demand has slowed down since March, particularly for petroleum products

* Year-on-year change in sales volume
March: Gasoline -10%, Diesel oil -10%, Jet fuel -50%

3. Progress on Business Integration

・ FY2019 integration synergies amounted to ¥35 billion, exceeding the planned figure

・ Succession of all businesses was completed by April 1, 2020

4. Status of Nghi Son Refinery in Vietnam

・ In full operation after facilities inspection and repairs last year

・ Reported impairment losses on affiliate stock of ¥33.9 billion (Parent alone)

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Topics

5. COVID-19 Response Measures

- The COVID-19 Headquarters was established on February 4 with President Shunichi Kito as its leader, creating a framework to prevent virus dissemination as well as to gather information and consider measures to secure stable product supply

- Petroleum products, which are crucial to the economy and society, are being supplied as usual even after a state of emergency was declared

- Entry to domestic sales and research locations has been prohibited in order to prevent infection and dissemination

- Manufacturing facilities such as refineries and factories continue to operate under strict preventative measures, allowing us to continue to provide stable supply

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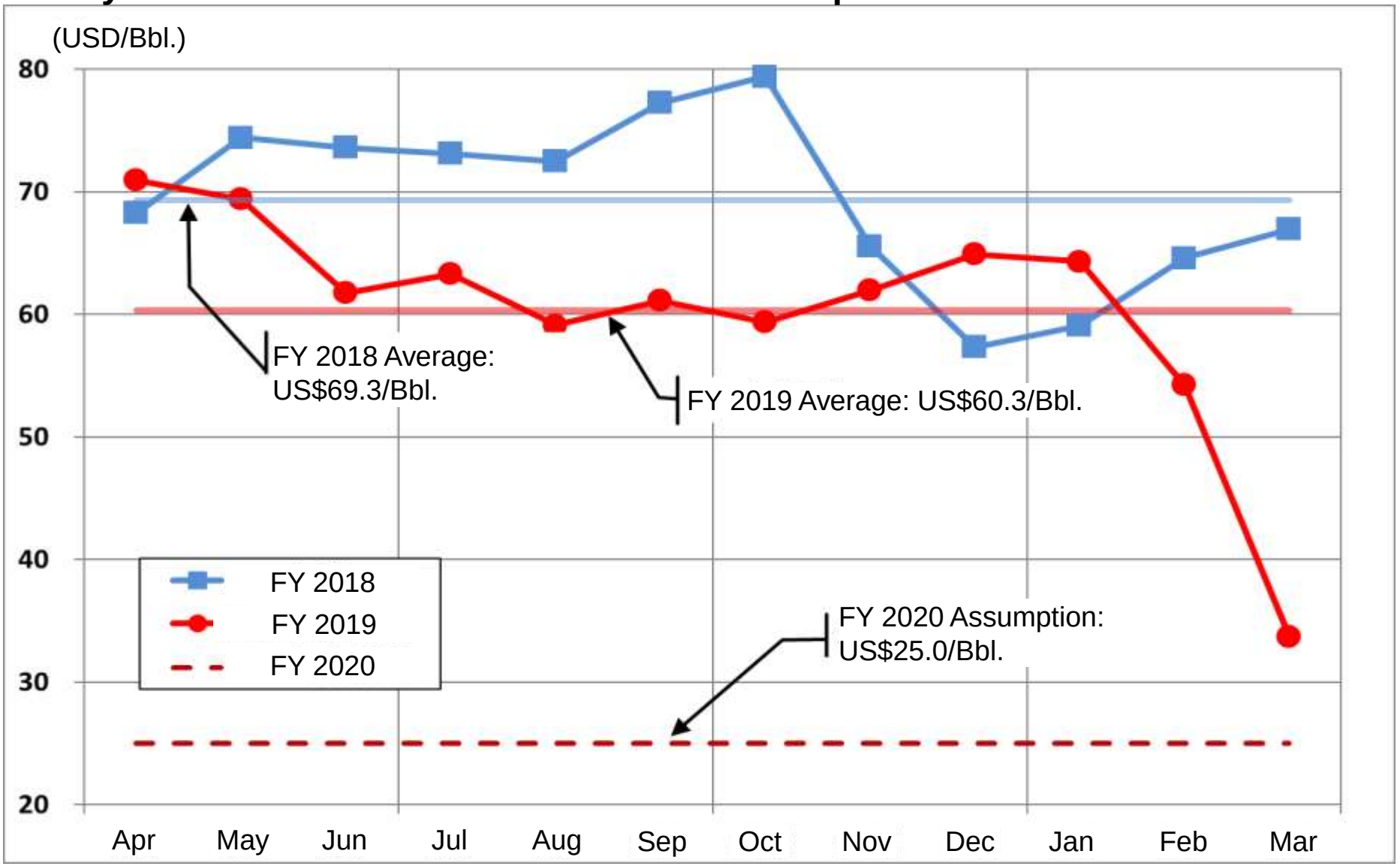
FY 2019 Results

- FY 2018(E): Estimate of the total of Idemitsu Kosan and Showa Shell Sekiyu on a 100% consolidated basis
- Segment information: Total of operating income and equity earnings of affiliates (Equity Income)

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Crude Oil Price Trends

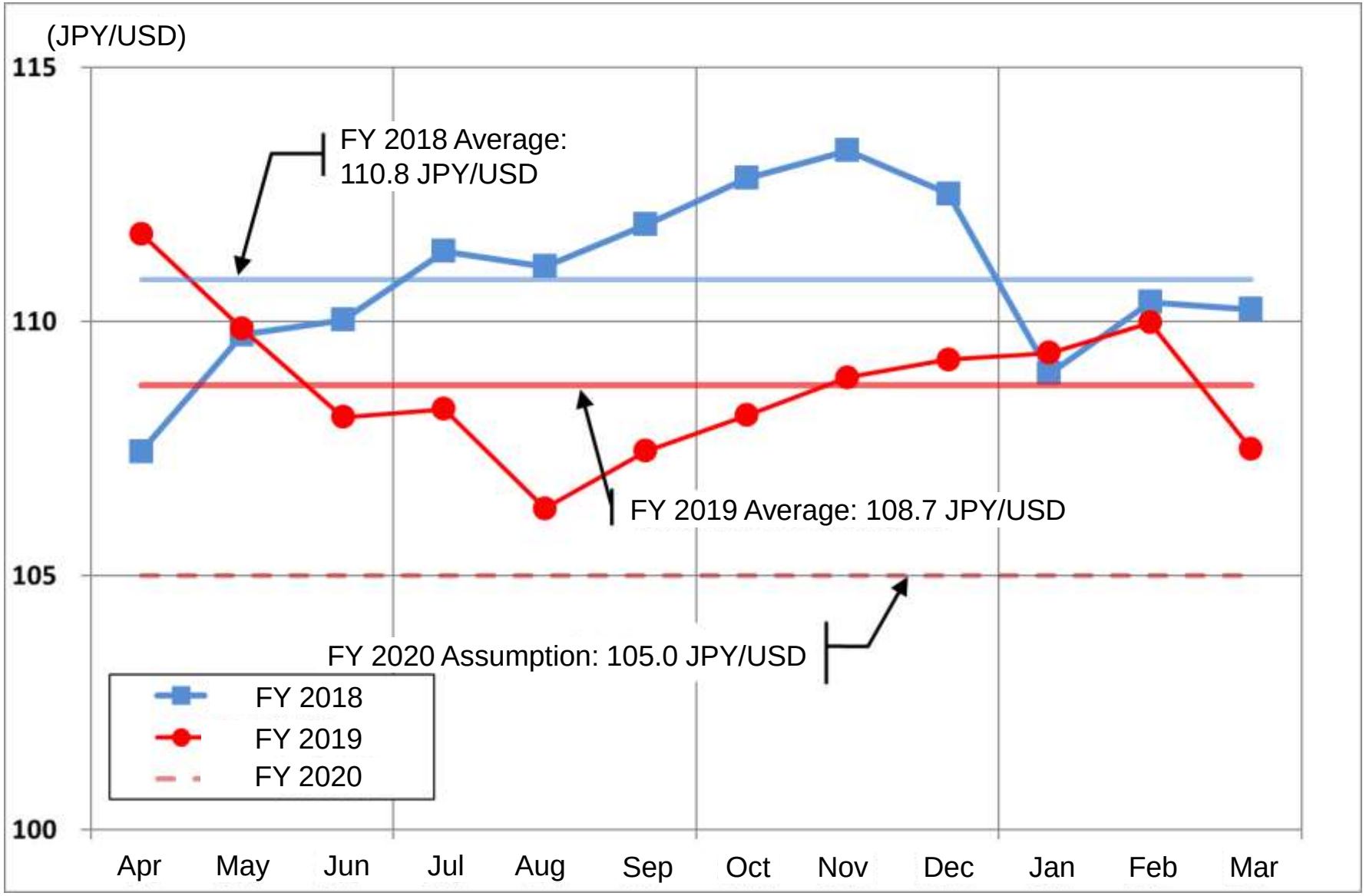
<Monthly Dubai Crude Oil Price Trends and Assumptions for Performance Forecasts>



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JPY/USD Exchange Rate (TTM) Trends

<Monthly JPY/USD (TTM) Trends and Assumptions for Performance Forecasts>



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Overview

<FY 2019 Results>

- **Operating income excluding inventory impact + equity-income decreased by ¥155.3 billion year-on-year, to ¥63.1 billion, mainly due to losses from time lag and decreased equity income in the petroleum segment, reduced product margins in the basic chemicals segment, and reduced income in the resources segment**
- **Ordinary income decreased by ¥250.5 billion year-on-year, to a loss of ¥14.0 billion. Net income attributable to owners of the parent decreased by ¥117.5 billion year-on-year, to a loss of ¥22.9 billion**

<FY2019 Dividends>

- **FY2019 full-year dividends of ¥160/share**

  (¥80/share interim dividend + ¥80/share FY-end dividend)

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(1) Overview

1) Crude Oil / Exchange Rates

(Units: $/Bbl., $/Ton, ¥/$)

	FY 2018	FY 2019	Change	
Crude Oil (Dubai)	69.3	60.3	(9.0)	(13.0%)
Crude Oil (Brent)	71.0	64.3	(6.7)	(9.5%)
Naphtha Price (Customs)	621	540	(81)	(13.0%)
Thermal Coal (NEWC)	107.1	77.8	(29.4)	(27.4%)
Exchange Rate (TTM)	110.8	108.7	(2.1)	(1.9%)

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

2) Consolidated Income Statement (Summary)

(Units: ¥ billions)

	FY 2018	FY 2019	Change	
Net Sales	6,866.6	6,045.9	(820.8)	(12.0%)
Operating Income + Equity Income	229.1	(26.2)	(255.4)	—
(Inventory impact)	*10.8*	*(89.3)*	*(100.1)*	—
(Excluding inventory impact)	*218.3*	*63.1*	*(155.3)*	*(71.1%)*
Ordinary Income	236.5	(14.0)	(250.5)	—
Extraordinary Gain/Loss	(55.7)	(3.3)	52.4	—
Net Income Attributable to Owners of the Parent	94.5	(22.9)	(117.5)	—
(Excluding inventory impact)	*87.0*	*39.0*	*(48.0)*	*(55.2%)*

* 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 + Equity Income

	FY 2018 (E)	FY 2019	Change	
Petroleum	**79.8**	**(109.4)**	**(189.2)**	**—**
(Excluding inventory impact)	***69.0***	***(20.1)***	***(89.1)***	**—**
Basic Chemicals	**50.4**	**11.9**	**(38.5)**	**(76.4%)**
Functional Materials	**33.2**	**28.4**	**(4.8)**	**(14.5%)**
Power and Renewable Energy	**(7.5)**	**(0.5)**	**7.0**	**—**
Resources	**88.5**	***41.8***	**(46.8)**	**(52.8%)**
(Oil Exploration and Production)	***37.1***	***17.8***	***(19.3)***	***(52.1%)***
(Coal)	***51.5***	***24.0***	***(27.5)***	***(53.3%)***
Others/Reconciliation	**(15.4)**	**1.5**	**16.9**	**—**
Total	**229.1**	**(26.2)**	**(255.4)**	**—**
(Excluding inventory impact)	***218.3***	***63.1***	***(155.3)***	***(71.1%)***

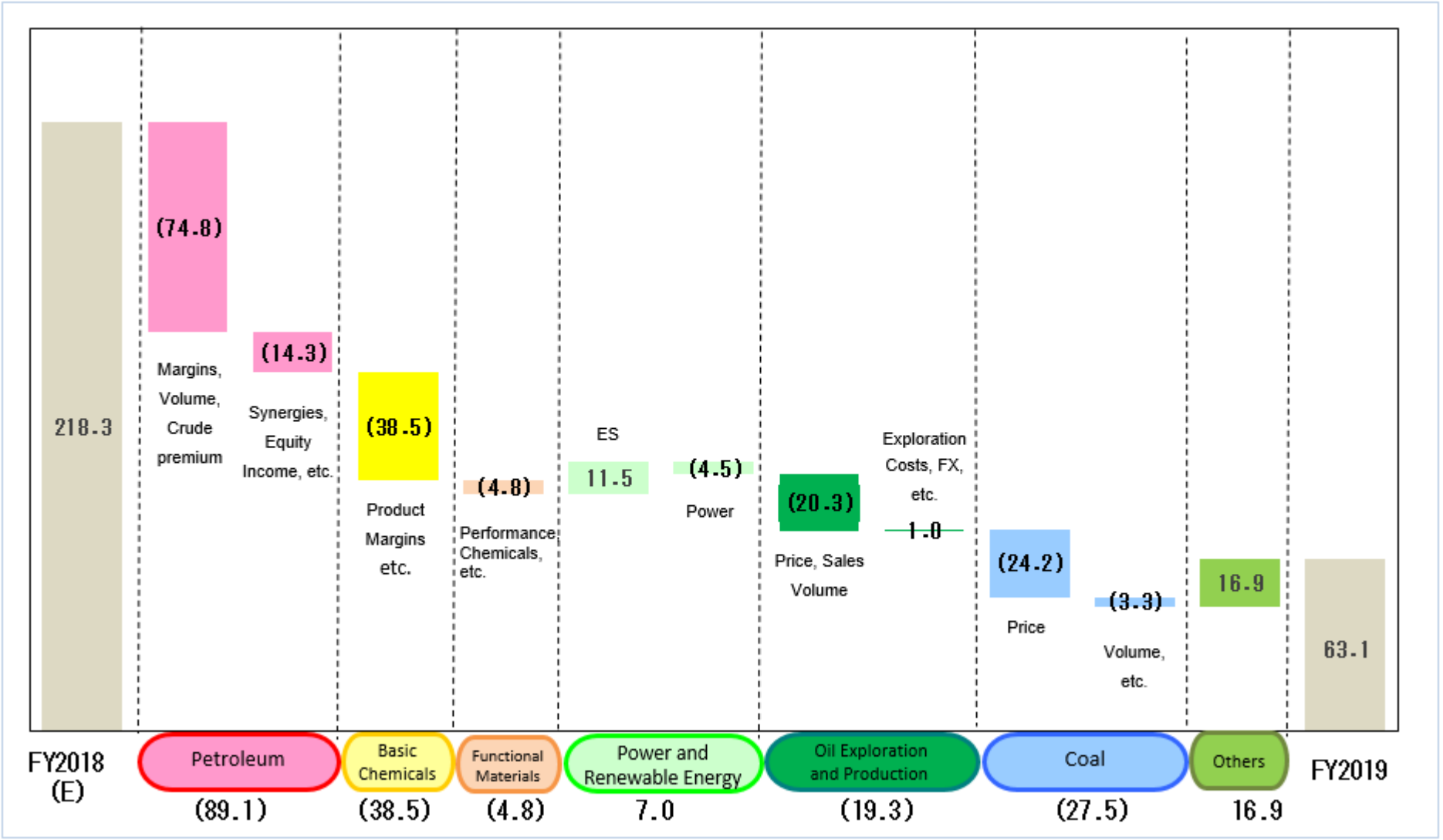
*** Fiscal years for Australian coal operations and Oil Exploration and Production included in the Resources Business end in December**

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(2) Segment Information

2) Analysis of Factors Affecting Operating Income + Equity Income (Excluding inventory impact, year-on-year)

(Units: ¥ billions)



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FY2020 Forecast

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(1) Impact of COVID-19

1) Major Impact on Idemitsu Operations

	Description
Petroleum	・Reduced demand for fuel due to the request of stay-home and shrinking economic activity -Sales volume forecast (Units: Thousand KL, y-o-y change) Gasoline 12,500 -12%, Kerosene 4,200 +7%, Diesel oil 9,700 -8%, Heavy Fuel Oil A 3,000 -10%, Jet fuel 2,550 -50%
Vietnam Nghi Son Refinery	・Less expected impact from reduced petroleum demand compared to Japan, as restrictions on leaving home were lifted in Vietnam
Basic Chemicals	・Market decline for products such as PX, SM, and MX due to reduced product demand and worsening of supply/demand balance
Functional Materials	・Lubricants: reduced capacity utilization at client factories leading to reduced sales and exports -Forecast of sales volume is 10-20% decrease from the previous year ・Performance chemicals: Reduced PC demand for automotive and market decline
Power and Renewable Energy	・Power/renewable energy: Negligible impact as decrease in high-voltage is offset by increase in low-voltage demand due to the request to stay home ・Solar: Reduced capacity utilization due to sales volume decline
Oil Exploration and Production	・Expected decrease in earnings from crude oil price decline： -Forecast of production is +10% change from the previous year ※including reversal of special factors
Coal	・Reduced demand due to economic slow-down, decrease in coal prices -Forecast of production remains unchanged from the previous year

* The above were constructed based on current forecasts and the actual impact is subject to change for various reasons

Our earnings forecast is based on the impact above lasting through the fiscal year.

2) FY2020 Dividend Forecast

・FY2020 Dividend Forecast has not yet been fixed.

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(2) Overview

1) Crude Oil / Exchange Rates

(Units: $/Bbl., $/Ton, ¥/$)

	FY 2019	FY 2020(E)	Change	
Crude Oil (Dubai)	60.3	25.0	(35.3)	(58.6%)
Crude Oil (Brent)	64.3	30.0	(34.3)	(53.4%)
Naphtha Price (Customs)	540	300	(240)	(44.4%)
Thermal Coal (NEWC)	77.8	55.0	(22.8)	(29.3%)
Exchange Rate (TTM)	108.7	105.0	(3.7)	(3.4%)

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

2) Consolidated Income Statement (Summary)

(Units: ¥ billions)

	FY 2019	FY 2020(E)	Change	
Net Sales	6,045.9	3,900.0	(2,145.9)	(35.5%)
Operating Income + Equity Income	(26.2)	25.0	51.2	—
(Inventory impact)	*(89.3)*	*0.0*	*89.3*	—
(Excluding inventory impact)	*63.1*	*25.0*	*(38.1)*	*(60.4%)*
Ordinary Income	(14.0)	30.0	44.0	—
Extraordinary Gain/Loss	(3.3)	(10.0)	(6.7)	—
Net Income Attributable to Owners of the Parent	(22.9)	5.0	27.9	—
(Excluding inventory impact)	39.0	*5.0*	*(34.0)*	*(87.2%)*

* 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) Overview

3) Segment Information

(Units: ¥ billions)

	FY 2019	FY 2020(E)	Change	
Petroleum	(109.4)	35.0	144.4	—
(Excluding inventory impact)	*(20.1)*	*35.0*	*55.1*	—
Basic Chemicals	11.9	0.0	(11.9)	(100.0%)
Functional Materials	28.4	0.0	(28.4)	(100.0%)
Power and Renewable Energy	(0.5)	(5.0)	(4.5)	—
Resources	41.8	(3.0)	(44.8)	—
(Oil Exploration and Production)	*17.8*	*(3.0)*	*(20.8)*	—
(Coal)	*24.0*	*0.0*	*(24.0)*	*(100.0%)*
Others/Reconciliation	1.5	(2.0)	(3.5)	—
Total	(26.2)	25.0	51.2	—
(Excluding inventory impact)	*63.1*	*25.0*	*(38.1)*	*(60.4%)*

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

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Reference Materials

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1. Overview of the Company

Petroleum Segment

Refining capacity: 945,000 BD *1

Domestic fuel oil sales volume:
42 million KL/year

Number of service stations: 6,400

Basic Chemicals Segment

Production Capacity

Ethylene: 1 mil tons/year

Paraxylene: 1.28 mil tons/year *2

Styrene monomers: 0.75 mil tons/year

Power and Renewable Energy Segment

Power generation capacity: 1GW
(Renewable energy: 0.2GW)

Solar panel production capacity: 1GW/year

Functional Materials Segment

(Lubricants, performance chemicals, electronic materials, functional asphalt, agricultural-biotechnology, solid electrolyte)

Lubricants sales volume: 1.3 mil KL/year *3

Performance chemicals production capacity
Engineering plastics: 150,000 tons/year
Adhesive materials: 76,000 tons/year

OLED materials production capacity:
10 tons/year

Resources Segment

Crude oil production: 27,000 BD

Thermal coal production:
12 mil tons/year

*1 1,090,000 barrels/day when adding the refining capacity of Fuji Oil, Co.,Ltd with which a petroleum products trade agreement has been signed

*2 Including mixed xylene production capacity

*3 Lubricants sales volume excludes sales by Shell Lubricants Japan K.K.

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2. Financial Reporting

(1) FY 2019 Results

1) Net Sales by Segment

(Units: ¥ billions)

	FY 2018 (E)	FY 2019	Change	
Petroleum	5,379.7	4,821.0	(558.7)	(10.4%)
Basic Chemicals	601.8	459.2	(142.6)	(23.7%)
Functional Materials	436.3	393.8	(42.4)	(9.7%)
Power and Renewable Energy	137.1	127.7	(9.4)	(6.9%)
Resources	308.0	241.8	(66.2)	(21.5%)
(Oil Exploration and Production)	*77.5*	*48.9*	*(28.6)*	*(36.9%)*
(Coal)	*230.5*	*192.9*	*(37.6)*	*(16.3%)*
Others/Reconciliation	3.7	2.3	(1.4)	(38.5%)
Total	6,866.6	6,045.9	(820.8)	(12.0%)

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2. Financial Reporting

(1) FY 2019 Results

2) Extraordinary Gains/Losses

(Units: ¥ billions)

	FY 2018 (E)	FY 2019	Change
Gain on Sale of Fixed Assets	5.5	2.2	(3.3)
Gain on Sale of Affiliate Stock	2.4	0.0	(2.4)
Gain on Business Transfer	2.3	0.0	(2.3)
Gain on Stepwise Acquisition	0.0	17.2	17.2
Other	6.8	3.5	(3.3)
Total Extraordinary Gains	17.0	22.9	5.9
Impairment Losses	31.5	9.0	(22.5)
Loss on Sale and Depletion of Fixed Assets	6.2	8.3	2.1
LPG Business Penalties	25.7	0.0	(25.7)
Other	9.3	8.8	(0.5)
Total Extraordinary Losses	72.7	26.2	(46.5)
Total Extraordinary Gains/Losses	(55.7)	(3.3)	52.4

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2. Financial Reporting

(1) FY 2019 Results

3) Balance Sheet

(Units: ¥ billions)

	4/1/2019	3/31/2020	Change
Cash and Deposits	141.7	132.2	(9.5)
Receivables, Inventory, etc.	1,677.8	1,418.1	(259.7)
Total Current Assets	1,819.5	1,550.3	(269.2)
Tangible Fixed Assets	1,410.4	1,478.1	67.7
Other Fixed Assets	920.5	858.5	(62.0)
Total Fixed Assets	2,330.9	2,336.6	5.7
Total Assets	4,150.4	3,886.9	(263.5)

	4/1/2019	3/31/2020	Change
Total Current Liabilities	1,781.2	1,648.4	(132.8)
Total Fixed Liabilities	1,060.4	1,038.0	(22.4)
Total Liabilities	2,841.6	2,686.4	(155.2)
Shareholders' Equity and Other Comprehensive Income	1,255.6	1,150.0	(105.6)
Noncontrolling Interests	53.2	50.6	(2.6)
Total Net Assets	1,308.8	1,200.6	(108.2)
Total Liabilities and Net Assets	4,150.4	3,886.9	(263.5)

Net D/E Ratio	0.75	1.05	0.30
Total Interest -bearing Debt	1,077.2	1,336.3	259.1
Equity Ratio	30.3%	29.6%	(0.7%)

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2. Financial Reporting

(1) FY 2019 Results

4) Consolidated Statement of Cash Flows

(Units: ¥ billions)

	FY 2019
CF from Operating Activities	(32.7)
Net Income before Tax Adjustments	(17.2)
Depreciation Expense	94.9
Change in Working Capital	113.9
Other	(224.3)
CF from Investing Activities	(134.5)
Purchase of Tangible Fixed Assets	(118.6)
Other	(15.8)
CF from Financing Activities	157.9
Change in Borrowings	232.7
Dividend Payments	(34.0)
Expenditures for Share Buyback	(13.2)
Other	(27.6)
Translation Gains/Losses	(0.9)
Increase in Cash and Cash Equivalents	(10.1)
Cash and Cash Equivalents - Beginning Balance	139.5
Cash and Cash Equivalents - Ending Balance	129.3

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3. Sensitivity

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

Petroleum	Decrease in refinery fuel costs, etc.	¥1.0billion
	Inventory impact	(¥5.0 billion)
		(¥4.0 billion)
Oil Exploration & Production		(¥1.0 billion)

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

Petroleum	Decrease in refinery fuel costs, etc.	¥0.5 billion
	Inventory impact	(¥3.0 billion)
		(¥2.5 billion)
Basic Chemicals		(¥0.5 billion)
Oil Exploration & Production		—

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

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4. Sales and Production

(1)－1.Sales Volume (Petroleum Segment)

（Units:Thousand KL,%）

	FY 2018（E）	FY 2019	Change	
Gasoline	15,386	14,119	(1,267)	(8.2%)
Naphtha	447	265	(182)	(40.7%)
Jet Fuel	5,261	4,979	(282)	(5.4%)
Kerosene	4,452	3,940	(512)	(11.5%)
Diesel Oil	11,380	10,585	(795)	(7.0%)
Heavy Fuel Oil A	3,808	3,335	(473)	(12.4%)
Heavy Fuel Oil C	3,550	3,332	(218)	(6.2%)
Toal Domestic Sales Volume	44,285	40,554	(3,731)	(8.4%)
Exported Volume	4,118	3,811	(307)	(7.4%)
Total Sales Volume	48,402	44,365	(4,037)	(8.3%)

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4. Sales and Production

(1)－2.Sales Volume (Basic Chemicals Segment)

(Units:Thousand tons, %)

	FY 2018（E）	FY 2019	Change	
Basic Chemicals	4,289	4,065	(224)	(5.2%)

(1)－3.Sales Volume (Functional Materials Segment)

（Units:Thousand KL,Thousand tons,% ）

	FY 2018（E）	FY 2019	Change	
Lubricants	1,271	1,192	(79)	(6.2%)
Performance Chemicals	618	620	2	0.3%

*Includes sales of overseas licenses

*Lubricant oil sales volume excludes sales by Shell Lubricants Japan K.K.

(1)－4.Sales Volume (Power and Renewable Energy Segment)

(Units:Million kWh, %)

	FY 2018（E）	FY 2019	Change	
Retail Power Sales	2,314	2,903	589	25.5%

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4. Sales and Production

(1)－5.Oil E&P – Production Volume, including Gas (Resources Segment)

(Units:Thousand BOED)

	FY 2018	FY 2019	Change	
Norway	26.8	20.9	(6.0)	(22.2%)
Total('000BOE)	9,795	7,622	(2,173)	(22.2%)

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

(1)－6. Coal – Production Volume (Resources Segment)

(Units:Thousand tons)

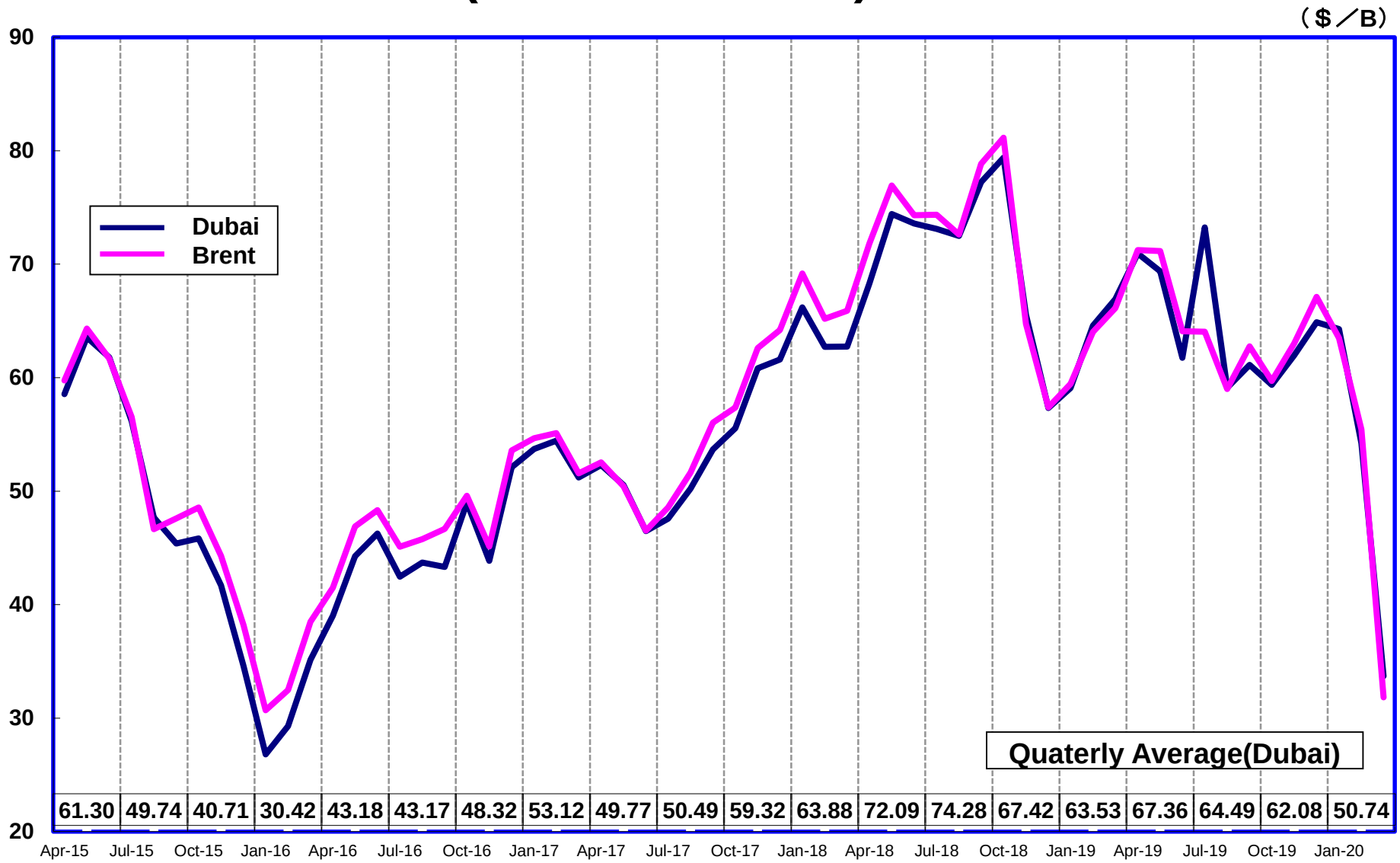
	FY 2018	FY 2019	Change	
Ensham	4,453	4,144	(309)	(6.9%)
Muswellbrook	1,516	1,177	(339)	(22.4%)
Boggabri	5,302	4,935	(367)	(6.9%)
Tarawonga	204	0	(204)	(100.0%)
Sub Total	11,475	10,256	(1,219)	(10.6%)
Ma｜inau	1,068	1,256	188	17.6%
Total Production Volume	12,543	11,513	(1,030)	(8.2%)

*Figures based on interest owned by Idemitsu Group
*Fiscal years for Oil Exploration and Production and Coal operations end in December

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5. Market Conditions

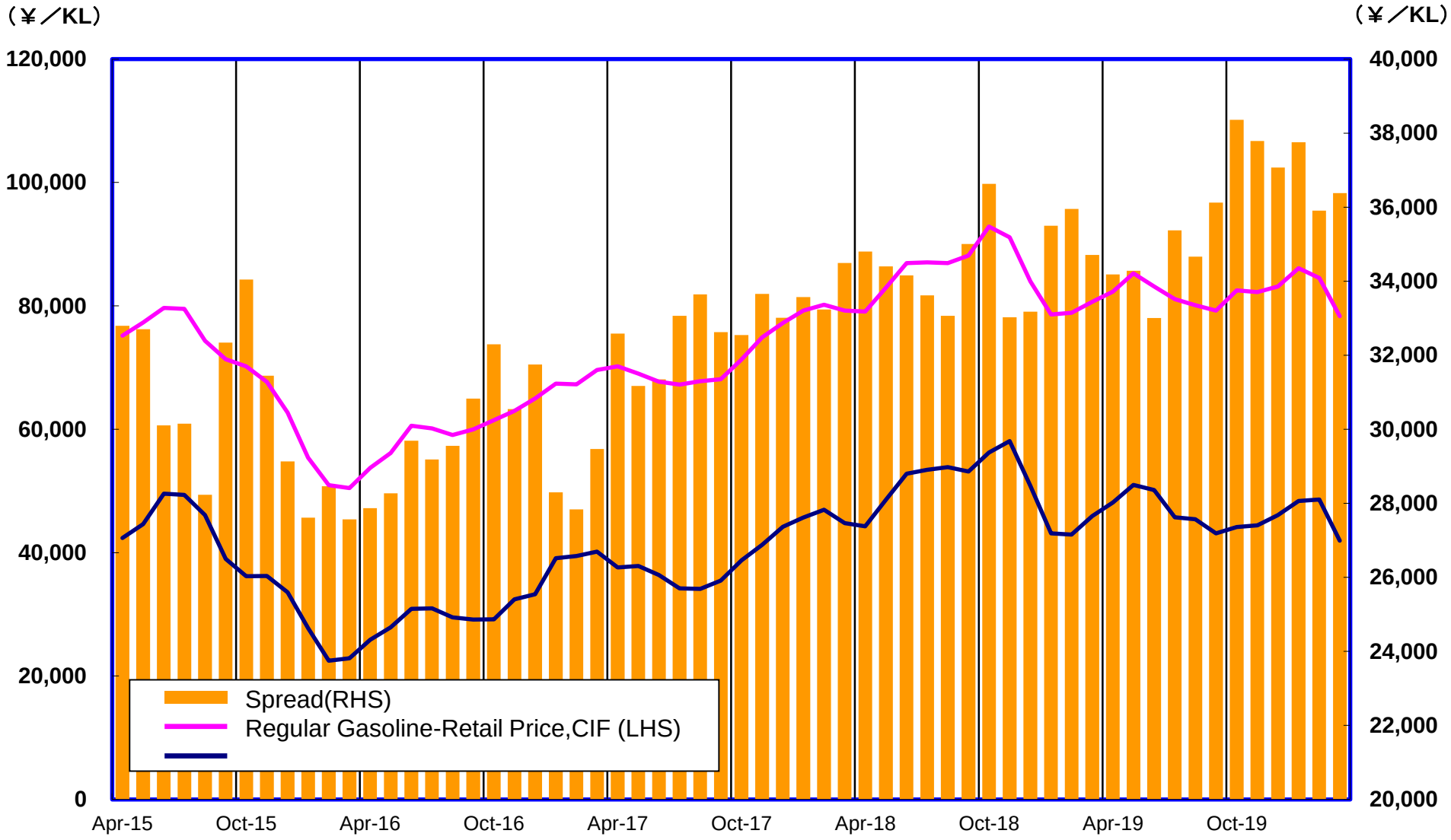
(1) Crude Oil Prices (Dubai and Brent)



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5. Market Conditions

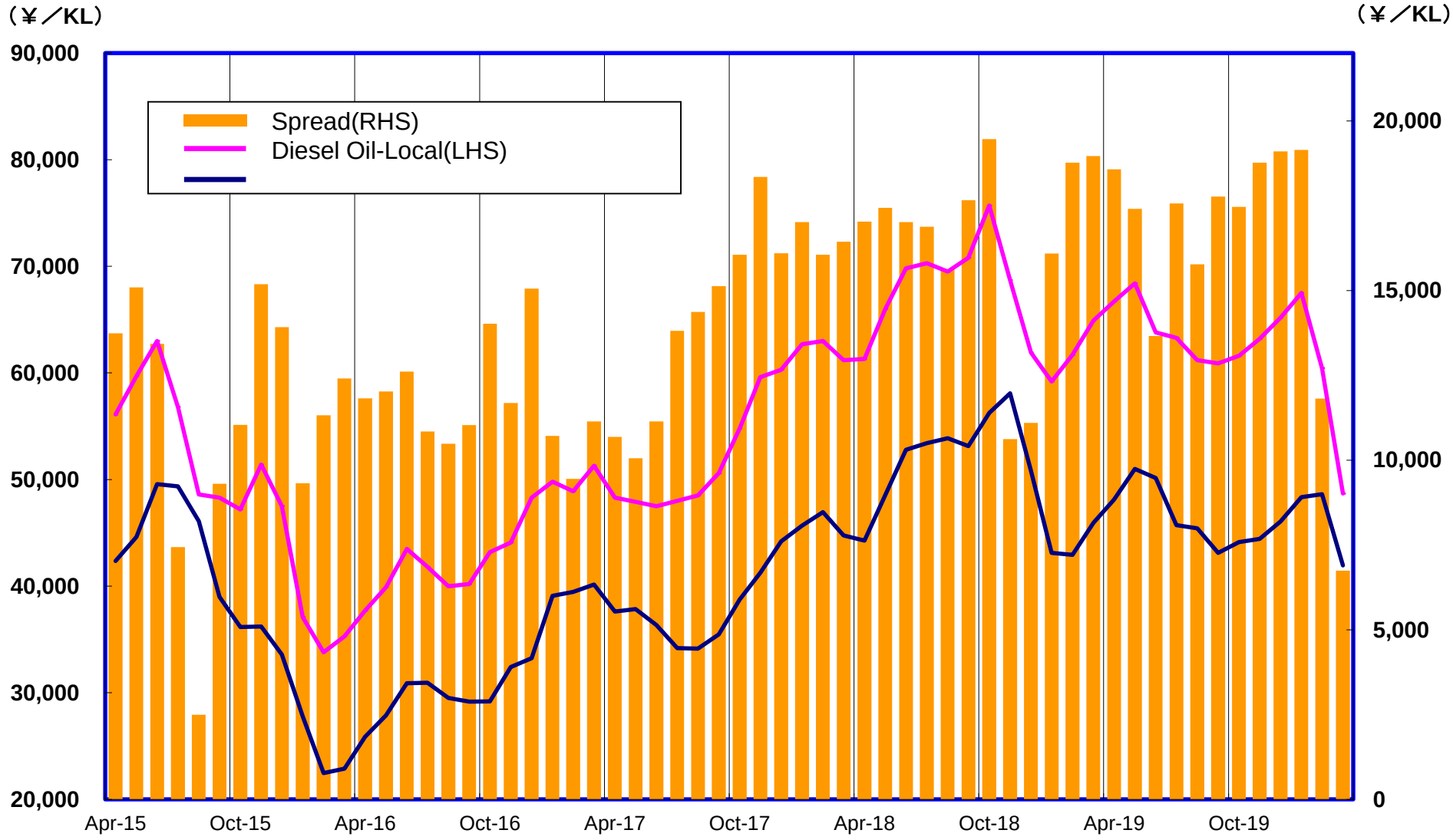
(2) Gasoline – Crude Oil CIF (Prices and Spreads)



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5. Market Conditions

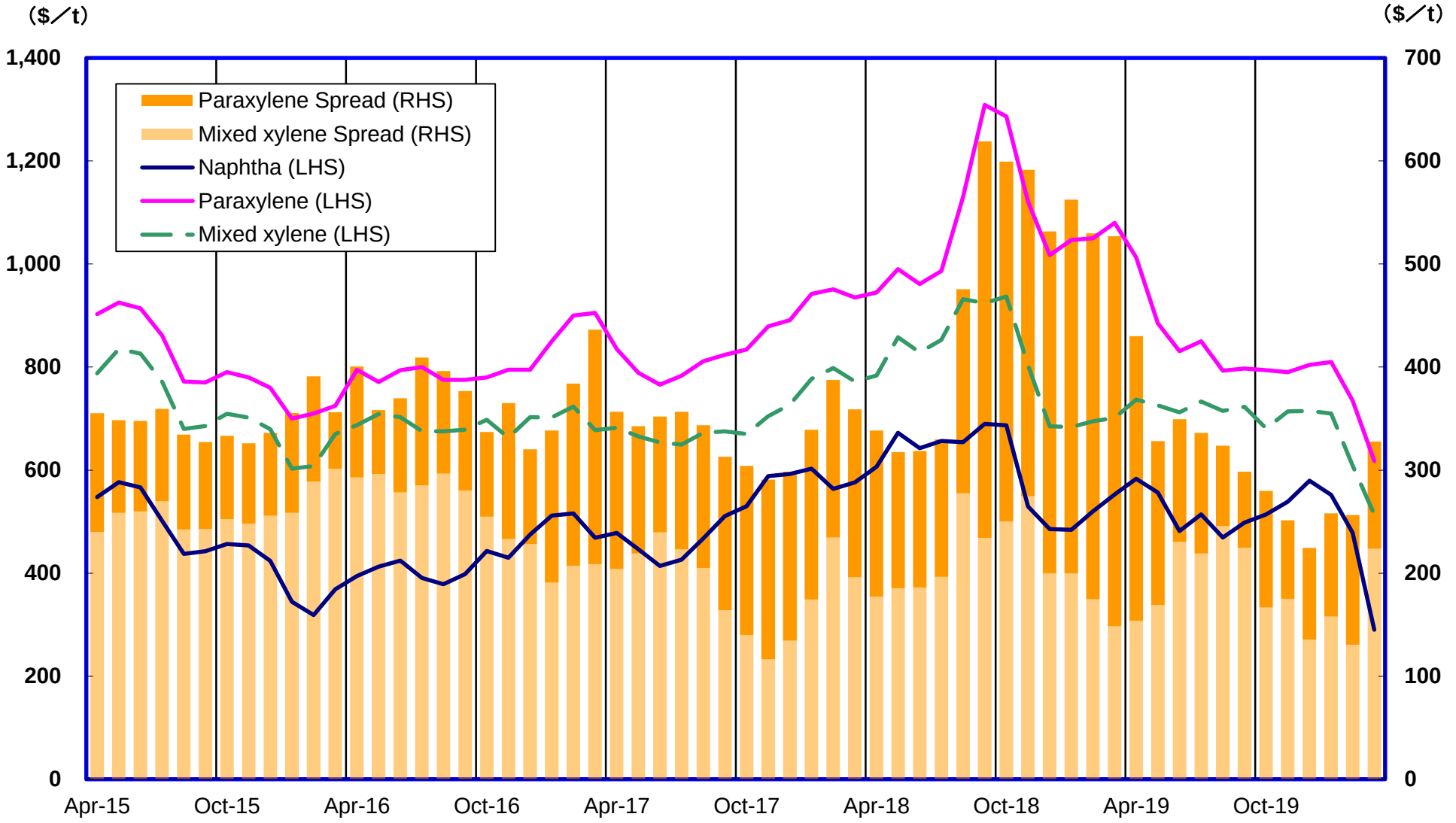
(3) Diesel Oil – Crude Oil CIF (Prices and Spreads)



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5. Market Conditions

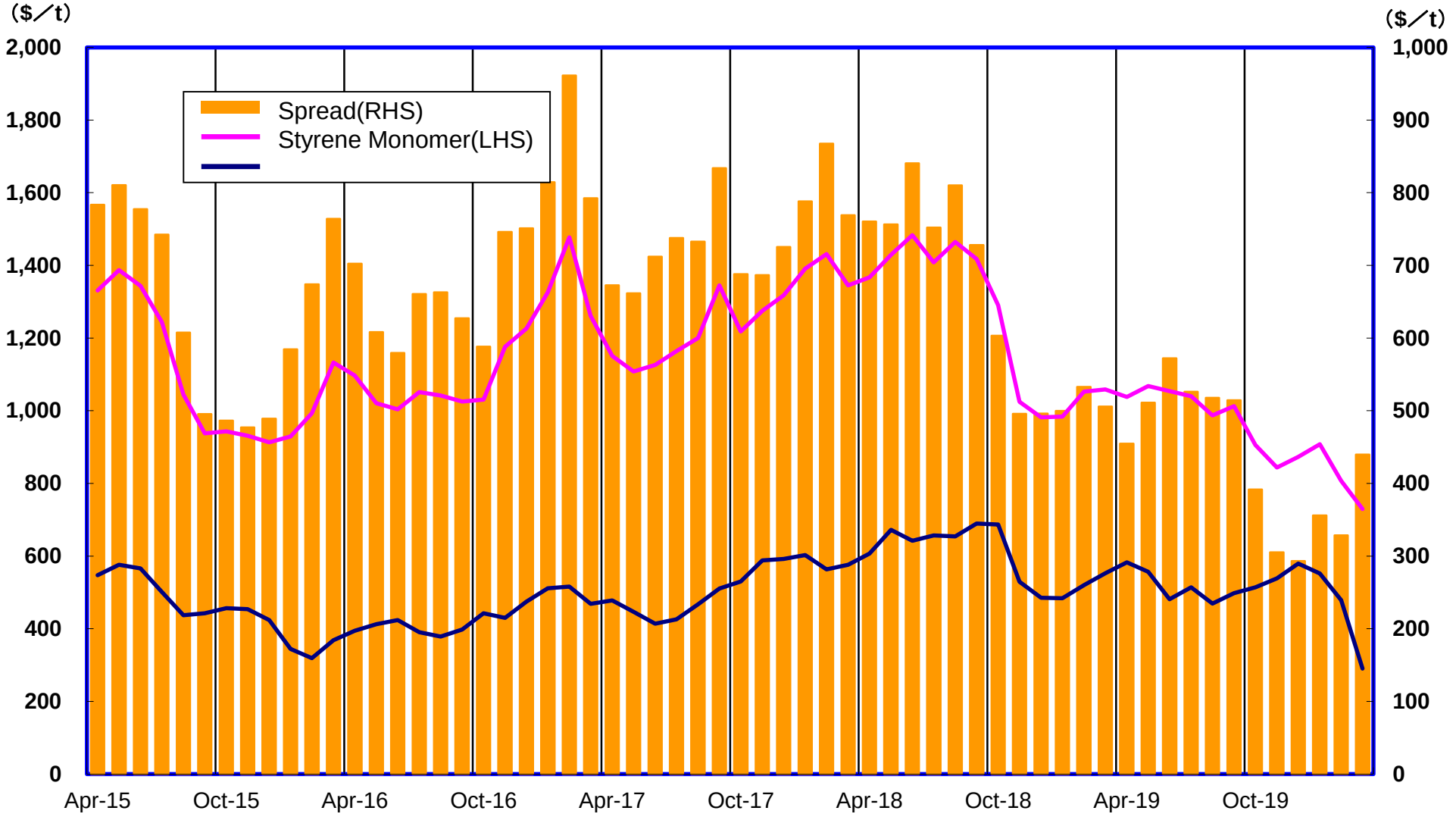
(4) Paraxylene, Mixed xylene, Naptha (Prices and Spreads)



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5. Market Conditions

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



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6. Refineries Utilization

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Idemitsu Kosan	86%	88%	88%	88%	87%
Showa Shell	91%	85%	88%	93%	

*** Utilization rate based on BCD**

7. Number of Service Stations

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Idemitsu Kosan	3,666	3,589	3,545	3,501	3,446
Showa Shell	3,193	3,123	3,028	2,964	2,938
Total	6,859	6,712	6,573	6,465	6,384

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Precaution statement about forecasts

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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