



November 14, 2017

# Consolidated Financial Results for the Second Quarter of Fiscal Year 2017 (From April 1, 2017 to September 30, 2017) [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 Second Quarter of FY2017 (From April 1, 2017 to September 30, 2017)

### (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	%
2Q FY2017	1,697,382	19.0	86,117	164.7	89,525	179.1	57,329	152.0
2Q FY2016	1,426,341	(23.6)	32,530	—	32,075	—	22,749	—

Notes: Comprehensive income 2Q FY2017 ¥58,202 million — % 2Q FY2016 ¥ (19,657) million — %

	Net income per share	Diluted net income per share
	¥	¥
2Q FY2017	325.34	—
2Q FY2016	142.23	—

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	¥million	¥million	%
2Q FY2017	2,669,286	792,912	28.4
FY2016	2,641,633	619,932	22.1

Reference: Total equity 2Q FY 2017 ¥757,643 million FY 2016 ¥583,800 million

## 2. Dividends

	Cash dividends per share				
	As of Jun.30	As of Sep.30	As of Dec.31	As of Mar.31	Total
	¥	¥	¥	¥	¥
FY2016	—	25.00	—	25.00	50.00
FY2017	—	40.00	—	—	—
FY2017 (Forecasts)	—	—	—	40.00	80.00

Notes: Revisions of the forecasts of cash dividends since the latest announcement: Yes

## 3. Forecasts of Consolidated Financial Results for FY2017 (From April 1, 2017 to March 31, 2018)

(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	%	¥
FY2017	3,600,000	12.8	160,000	18.3	176,000	25.7	100,000	13.4	520.72

Notes: Revisions of the forecasts of consolidated financial results since the latest announcement: Yes

\* Notes

- (1) Changes of number of material consolidated subsidiaries during the six months ended September 30, 2017: **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 September 30, 2017: 208,000,000	As of March 31, 2017: 160,000,000
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  - b) Number of shares of treasury stock

As of September 30, 2017: 47,356	As of March 31, 2017: 47,236
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  - c) Weighted average number of shares outstanding during the period

Six months ended September 30, 2017: 176,214,998	
Six months ended September 30, 2016: 159,953,044	

\*1 This document is out of the scope of the quarterly review procedures under the Financial Instruments and Exchange Act.

\*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 "Explanation of Forecasts of Consolidated Financial Results for FY 2017" of the Appendix.

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## 1. Qualitative Information on the Consolidated Operating Results for the Second Quarter of FY 2017

### (1) Explanation of Operating Results

The overall domestic demand for petroleum products during the six months ended September 30, 2017 was nearly consistent with the same period of fiscal 2016.

Dubai crude oil prices remained weak and fell lower than \$44.0/bbl in June due to productions increased by some non-OPEC countries and increased productions of shale oil. The outlook for a recovery in worldwide demand for crude oil boosted Dubai crude oil prices further in the later months to recover to the \$50.0/bbl range. As a result, the average price of crude oil from April to September 2017 was \$50.1/bbl, an increase of \$6.9/bbl from the same period last year.

Demand for petrochemical products during the first half of fiscal 2017 remained firm, particularly in Asia. The price for naphtha, a petrochemical raw material, was \$465.0/ton, an increase of \$61.0/ton from the same period last year.

(Crude oil price, naphtha price and exchange rate)

	Six months ended September 30, 2016	Six months ended September 30, 2017	Change	
Dubai Crude Oil (\$/bbl)	43.2	50.1	+6.9	+ 16.0%
Naphtha (\$/ton)	404	465	+61	+ 15.1%
Exchange Rate (¥/\$)	106.3	112.1	+5.8	+ 5.5%

The Idemitsu Group's net sales for the six months ended September 30, 2017 were ¥1,697.4 billion, up 19.0% from the corresponding period of fiscal 2016, mainly due to increased import prices for crude oil.

Operating income for the first half of fiscal 2017 was ¥86.1 billion, an increase of 164.7% from the same period last year, mainly due to increased margins of petroleum products and higher prices of natural resources. Non-operating income increased to ¥3.4 billion, an improvement of ¥3.9 billion from the same period last year, thanks to an increase in profit on equity in earnings nonconsolidated subsidiaries and affiliates. Consequently, ordinary income was ¥89.5 billion, an increase of 179.1% from the same period last year.

As a result, net income attributable to owners of the parent was ¥57.3 billion, an increase of 152.0% from the same period last year.

The performance of each business segment for the six months ended September 30, 2017 is as follows:

As to quarterly reporting periods, domestic subsidiaries use September 30 as their balance sheet date whereas overseas subsidiaries use June 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 six months ended June 30, 2017, and those of domestic subsidiaries for the six months ended September 30, 2017.

In association with an organizational change, effective as of July 1, 2017, net sales and operating income for the geothermal energy business and the uranium business, which had previously been categorized as part of "coal business and others" in the resources segment, were regrouped with "oil exploration and production and geothermal energy business", and "coal business and others" respectively in the resource segment. These changes were put into effect retroactively for the first six months of fiscal 2017.

[Petroleum products segment]

Net sales of the petroleum products segment were ¥1,294.0 billion, an increase of 19.1% compared with the same period of fiscal 2016, due partly to increases in import prices for crude oil.

Operating income was ¥31.2 billion, an increase of 131.4% from the corresponding period last year, thanks to stronger upward factors such as improved product margins compared to downward factors, including the unfavorable effect of inventory valuation.

[Petrochemical products segment]

Net sales of the petrochemical products segment for the six months ended September 30, 2017 were ¥228.3 billion, an increase of 9.7% from the same period of fiscal 2016, largely due to increases in naphtha prices.

Operating income was ¥20.6 billion, up 22.3% from the same period last year, due to favorable factors such as stable margins for styrene monomer and other products, which were partially offset by downward factors, including higher fuel costs for production.

[Resources segment]

(Oil exploration and production and geothermal energy business)

Net sales of the oil exploration and production and geothermal energy business for the six months ended September 30, 2017 were ¥42.5 billion, up 27.6% from the corresponding period of the previous year, bolstered primarily by a significant increase in crude oil prices, with operating income of ¥14.0 billion, up 807.4% from the same period of the preceding year.

(Coal business and others)

Net sales of the coal business and others for the six months ended September 30, 2017 were ¥101.0 billion, up 41.4% compared with the same period last year, helped largely by a significant increase in coal prices, with operating income of ¥18.8 billion, an increase of ¥18.1 billion from the same period of the preceding year.

As a result, total net sales of the resources segment were ¥143.5 billion, up 37.0% from the corresponding period of the previous year, and operating income was ¥32.8 billion, an increase of ¥30.5 billion from the corresponding period of last year.

[Other segments]

Net sales of the other segments for the six months ended September 30, 2017 were ¥31.5 billion, up 17.2% from the same period last year, and operating income was ¥3.1 billion, up 96.9% compared with the corresponding period of fiscal 2016.

## (2) Explanation of Financial Position

Total assets as of September 30, 2017 increased by ¥27.7 billion from the end of fiscal 2016 to ¥2,669.3 billion, mainly due to increases in cash and deposits despite decreases in accounts receivable-trade, inventory and tangible fixed assets. Total liabilities as of September 30, 2017 decreased by ¥145.3 billion from the end of fiscal 2016 to ¥1,876.4 billion, mainly due to decreases in interest-bearing debt (down to ¥900.7 billion) and in accounts payable-trade.

Total net assets as of September 30, 2017 increased by ¥173.0 billion from the end of fiscal 2016 to ¥792.9 billion, reflecting increases of ¥59.7 billion for both capital and capital surplus respectively due to the effect of public offering along with net income attributable to owners of the parent. Consequently, the equity ratio was 28.4%, up 6.3 points from the end of fiscal 2016.

Cash and cash equivalents as of September 30, 2017 were ¥148.3 billion, an increase of ¥58.2 billion compared with the end of fiscal 2016. Major factors for this increase are as follows:

Net cash provided by operating activities amounted to ¥136.3 billion. This was because cash-increasing factors such as favorable quarterly net income before income taxes and accrued payment exceeded decreasing factors such as a decrease in accounts payable-trade.

Net cash used in investing activities amounted to ¥41.4 billion, due mainly to an increase in property, plant and equipment as a result of capital spending along with an increase in long-term loans provided.

Net cash used in financing activities was ¥37.1 billion. This was because cash-increasing factors such as a decrease in interest-bearing liabilities exceeded decreasing factors such as the proceeds from new share issuance.

## (3) Explanation of Forecasts of Consolidated Financial Results for FY2017

The Company has revised the forecasts of the consolidated financial results for the year ending March 31, 2018 released on May 15, 2017, given the actual business results for the first half of fiscal 2017 and the latest forecasts.

## 2. Consolidated Financial Statements for the Second Quarter of FY2017 and Major Notes

### (1) Consolidated Quarterly Balance Sheets

(Unit: ¥Million)

	FY 2016 (As of March 31, 2017)	2nd Quarter of FY2017 (As of September 30, 2017)
<b>Assets</b>		
Current assets:		
Cash and deposits	91,423	149,583
Notes and accounts receivable, trade	327,402	311,090
Inventories	430,861	423,256
Other	112,712	112,912
Less: Allowance for doubtful accounts	(2,629)	(795)
Total current assets	959,770	996,047
Fixed assets:		
Property, plant and equipment:		
Machinery and equipment, net	203,493	190,347
Land	584,350	584,315
Other, net	234,241	239,608
Total property, plant and equipment	1,022,086	1,014,271
Intangible fixed assets	22,124	21,224
Investments and other assets:		
Investment securities	414,455	412,533
Oil field premium assets	30,617	19,144
Other	193,036	206,521
Less: Allowance for doubtful accounts	(457)	(456)
Total investments and other assets	637,652	637,743
Total fixed assets	1,681,863	1,673,239
Total assets	2,641,633	2,669,286
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable, trade	331,602	291,813
Short-term loans payable	357,566	247,028
Commercial paper	104,005	79,000
Current portion of bonds payable	10,000	25,000
Accounts payable, other	231,990	268,562
Income taxes payable	14,529	32,469
Provision for bonuses	8,247	8,086
Other	87,036	88,227
Total current liabilities	1,144,978	1,040,187
Non-current liabilities:		
Bonds payable	55,000	30,000
Long-term loans payable	524,115	518,070
Liability for employees' retirement benefits	15,093	15,119
Reserve for repair work	28,357	34,915
Asset retirement obligations	78,132	78,233
Oil field premium liabilities	38,114	26,211
Other	137,908	133,635
Total non-current liabilities	876,722	836,186
Total liabilities	2,021,700	1,876,373

(Unit: ¥Million)

	FY 2016 (As of March 31, 2017)	2nd Quarter of FY2017 (As of September 30, 2017)
Net assets		
Shareholders' equity:		
Common stock	108,606	168,351
Capital surplus	71,131	130,875
Retained earnings	249,549	304,907
Treasury stock	(131)	(132)
Total shareholders' equity	429,156	604,002
Accumulated other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	7,617	9,282
Deferred gains (losses) on hedging activities, net	(7,713)	(6,963)
Surplus from land revaluation	155,541	155,183
Foreign currency translation adjustments	318	(3,337)
Defined retirement benefit plans	(1,119)	(524)
Total accumulated other comprehensive income	154,644	153,640
Noncontrolling interests	36,132	35,269
Total net assets	619,932	792,912
Total liabilities and net assets	2,641,633	2,669,286



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

## 1) Consolidated Quarterly Statements of Income

(Unit: ¥Million)

	2nd Quarter of FY2016 (From April 1, 2016 to September 30, 2016)	2nd Quarter of FY2017 (From April 1, 2017 to September 30, 2017)
Net sales	1,426,341	1,697,382
Cost of sales	1,261,354	1,475,053
Gross profit	164,986	222,329
Selling, general and administrative expenses	132,456	136,211
Operating income	32,530	86,117
Non-operating income:		
Interest income	1,242	1,972
Dividend income	1,121	1,872
Gain on foreign exchange, net	—	212
Equity in earnings of nonconsolidated subsidiaries and affiliates, net	2,749	7,024
Other	1,438	840
Total non-operating income	6,551	11,922
Non-operating expenses:		
Interest expense	4,441	4,862
Loss on foreign exchange, net	1,311	—
Other	1,254	3,651
Total non-operating expenses	7,007	8,514
Ordinary income	32,075	89,525
Extraordinary income:		
Gain on sales of fixed assets	1,312	914
Gain on sale of affiliate stock	39	—
Other	278	14
Total extraordinary income	1,630	928
Extraordinary losses:		
Impairment loss on fixed assets	363	781
Loss on sales of fixed assets	79	79
Loss on disposals of fixed assets	1,203	698
Other	77	42
Total extraordinary losses	1,724	1,600
Income before income taxes	31,981	88,853
Income taxes	8,228	28,952
Net income	23,752	59,900
Net income attributable to noncontrolling interests	1,003	2,571
Net income attributable to owners of the parent	22,749	57,329

## 2) Consolidated Quarterly Statements of Comprehensive Income

(Unit: ¥Million)

	2nd Quarter of FY2016 (From April 1, 2016 to September 30, 2016)	2nd Quarter of FY2017 (From April 1, 2017 to September 30, 2017)
Net income	23,752	59,900
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(577)	1,131
Deferred gains on hedging activities, net	483	1,253
Foreign currency translation adjustments	(28,434)	(1,247)
Defined retirement benefit plans	696	593
Share of other comprehensive income in equity method affiliates	(15,578)	(3,429)
Total other comprehensive income	(43,410)	(1,698)
Comprehensive income	(19,657)	58,202
Comprehensive income attributable to:		
Owners of the parent	(16,909)	56,026
Noncontrolling interests	(2,748)	2,175

## (3) Consolidated Quarterly Statements of Cash Flows

(Unit: ¥Million)

	2nd Quarter of FY2016 (From April 1, 2016 to September 30, 2016)	2nd Quarter of FY2017 (From April 1, 2017 to September 30, 2017)
Cash flows from operating activities:		
Income before income taxes	31,981	88,853
Depreciation and amortization	33,756	34,281
Impairment loss on fixed assets	363	781
Amortization of goodwill	560	501
Increase (decrease) in liability for employees' retirement benefits	(234)	629
Increase (decrease) in reserve for repair work	7,721	6,557
Interest and dividend income	(2,364)	(3,845)
Interest expense	4,441	4,862
(Gain) loss on sales of fixed assets, net	(1,232)	(834)
(Gain) loss on sale of affiliate stock	(39)	—
(Increase) decrease in notes and accounts receivable, trade	11,708	16,209
(Increase) decrease in inventories	(22,076)	7,838
Increase (decrease) in notes and accounts payable, trade	3,181	(39,478)
Increase (decrease) in accounts payable, other	(9,675)	39,956
(Increase) decrease in accounts receivable, other	2,176	5,340
Other, net	(23,072)	(18,019)
Subtotal	37,194	143,634
Interest and dividends received	3,028	8,821
Interest paid	(4,526)	(4,819)
Income taxes paid	(2,795)	(11,310)
Net cash provided by (used in) operating activities	32,901	136,325
Cash flows from investing activities:		
Purchases of tangible fixed assets	(21,512)	(27,210)
Proceeds from sales of tangible fixed assets	2,494	2,006
Purchases of intangible fixed assets	(980)	(595)
Purchases of investment securities	(350)	(1,202)
Proceeds from sale of affiliate stock	39	—
Disbursements for long-term loans	(10,412)	(10,922)
Proceeds from collection of long-term loans receivable	750	318
(Increase) decrease in short-term loans receivable, net	2,353	(468)
Other, net	(6,135)	(3,300)
Net cash provided by (used in) investing activities	(33,753)	(41,376)

	(Unit: ¥Million)	
	2nd Quarter of FY2016 (From April 1, 2016 to September 30, 2016)	2nd Quarter of FY2017 (From April 1, 2017 to September 30, 2017)
Cash flows from financing activities:		
Increase (decrease) in short-term loans payable, net	(41,267)	(103,664)
Increase (decrease) in commercial paper, net	61,999	(25,005)
Proceeds from long-term loans payable	6,370	9,403
Repayments of long-term loans payable	(31,968)	(19,512)
Redemption of bonds	—	(10,000)
Proceeds from issuance of stock	—	118,624
Purchases of treasury stock	—	(0)
Cash dividends paid	(3,998)	(3,998)
Cash dividends paid to noncontrolling interests	(2,516)	(3,038)
Other, net	(239)	59
Net cash provided by (used in) financing activities	(11,621)	(37,132)
Effect of exchange rate change on cash and cash equivalents	(9,524)	(626)
Net increase (decrease) in cash and cash equivalents	(21,997)	57,189
Cash and cash equivalents at the beginning of period	118,787	90,093
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	996
Cash and cash equivalents at the end of period	96,789	148,279

#### (4) 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

Setting July 20, 2017 as the due date of payment, the Company made a public offering. As a result, each of capital and capital surplus increased by ¥59,744 million during the first half of fiscal 2017, leaving capital and capital surplus at ¥168,351 million and ¥130,875 million respectively as of September 30, 2017.

##### 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 six months ended September 30, 2017 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) Consolidated Segment Information

###### Second Quarter of FY2016 (From April 1, 2016 to September 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	1,086,5985	208,066	104,768	1,339,432	26,908	1,426,341	—	1,426,341
Inter-segment	3,518	1,797	0	5,316	126	5,442	(5,442)	—
Total	1,090,116	209,864	104,768	1,404,749	27,034	1,431,784	(5,442)	1,426,341
Operating income	13,467	16,879	2,315	32,662	1,591	34,253	(1,723)	32,530

###### 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 is 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 is no significant item during the period.

Second Quarter of FY2017 (From April 1, 2017 to September 30, 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	1,293,970	228,337	143,526	1,665,834	31,548	1,697,382	—	1,697,382
Inter-segment	3,157	1,885	472	5,515	198	5,713	(5,713)	—
<b>Total</b>	<b>1,297,127</b>	<b>230,222</b>	<b>143,999</b>	<b>1,671,349</b>	<b>31,746</b>	<b>1,703,096</b>	<b>(5,713)</b>	<b>1,697,382</b>
Operating income	31,160	20,642	32,830	84,633	3,133	87,766	(1,648)	86,117

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 non-consolidated subsidiaries and affiliates is provided to and used by the Board of Directors on a regular basis. The equity in earnings of non-consolidated subsidiaries and affiliates of Showa Shell Sekiyu K.K. is included in the segment “Others”.  
 (Petroleum products) ¥(1,213) million    (Petrochemical products) ¥4,816 million  
 (Resources) ¥1,033 million    (Others) ¥2,510 million    (Reconciliation) ¥(123) million

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

There is no significant item during the period.