



August 14, 2017

# Consolidated Financial Results for the First Quarter of Fiscal Year 2017 (From April 1, 2017 to June 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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Scheduled date of filing of quarterly securities report: August 14, 2017

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 First Quarter of FY2017 (From April 1, 2017 to June 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	%
1Q FY2017	831,713	22.5	34,583	40.7	39,051	61.4	25,367	37.8
1Q FY2016	678,761	(26.4)	24,573	36.3	24,189	51.0	18,411	61.6

Notes: Comprehensive income 1Q FY2017 ¥19,571million 196.0 % 1Q FY2016 ¥ 6,612 million — %

	Net income per share	Diluted net income per share
	¥	¥
1Q FY2017	158.59	—
1Q FY2016	115.10	—

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	¥million	¥million	%
1Q FY2017	2,628,690	634,758	22.9
FY2016	2,641,633	619,932	22.1

Reference: Total equity 1Q FY 2017 ¥601,370 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	—				
FY2017 (Forecasts)		25.00	—	25.00	50.00

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

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

(Percentage figures represent changes from the prior year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	¥million	%	¥million	%	¥million	%	¥million	%	¥
FY2017	3,500,000	9.7	124,000	(8.3)	140,000	0.0	89,000	0.9	463.44

Notes: Revisions of the forecasts of consolidated financial results since the latest announcement: None

Setting July 20, 2017 as the due date of payment, the Company issued 48,000,000 common shares through a public offering. The fiscal 2017 forecast for consolidated net income per share is calculated based on the estimated average number of shares outstanding during the fiscal year, including the publicly offered common shares.

\* Notes

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

As of June 30, 2017: 47,276	As of March 31, 2017: 47,236
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  - c) Weighted average number of shares outstanding during the period

Three months ended June 30, 2017: 159,952,737	
Three months ended June 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 First Quarter of FY 2017

### (1) Explanation of Operating Results

The overall domestic demand for petroleum products during the first quarter of fiscal 2017 remained roughly flat from the same period of the previous year.

While Dubai crude oil prices hovered around the \$50/bbl level in April and May on the back of increasing geopolitical risks mainly in Syria and expectations of extended coordinated production cut by OPEC, they temporarily fell below \$44/bbl in June due to higher supply from two OPEC states exempt from a production-cutting deal, Libya and Nigeria, as well as rising shale-oil production. Consequently, the average crude oil price for the first quarter of fiscal 2017 was \$49.8/bbl, an increase of \$6.6/bbl against the same period of the previous year.

Demand for petrochemical products during the first quarter of fiscal 2017 was almost consistent with the same period of fiscal 2016. The price for naphtha, a petrochemical raw material, grew by \$86/ton against the same period of last year to \$482/ton.

(Crude oil price, naphtha price and exchange rate)

	Three months ended June 30, 2016	Three months ended June 30, 2017	Change	
Dubai Crude Oil (\$/bbl)	43.2	49.8	+6.6	+15.2 %
Naphtha (\$/ton)	395	482	+86	+21.9 %
Exchange Rate (¥/\$)	109.1	112.1	+3.0	+2.7 %

The Idemitsu Group's net sales for the first quarter of fiscal 2017 were ¥831.7 billion, an increase of 22.5% compared with the same period of the preceding year, due mainly to increased import prices for crude oil.

Operating income increased by 40.7% against the same period of the preceding year to ¥34.6 billion, due mainly to the negative effect of inventory valuation, which was partially offset by the effects of higher margins on petroleum products and increased resource prices. Net non-operating income during the quarter totaled ¥4.5 billion, an increase of ¥4.9 billion from the same period of last year, owing primarily to increased share of profit of entities accounted for using the equity method. As a result, ordinary income was ¥39.1 billion, an increase of 61.4% compared with the same period of last year.

Net income attributable to owners of the parent increased by 37.8% compared with the same period of fiscal 2016 to ¥25.4 billion.

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

As to quarterly reporting periods, domestic subsidiaries use June 30 as their balance sheet date whereas overseas subsidiaries use March 31 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 three months ended March 31, 2017, and those of domestic subsidiaries for the three months ended June 30, 2017.

[Petroleum products segment]

Net sales of the petroleum products segment for the three months ended June 30, 2017 were ¥631.1 billion, an increase of 24.1% compared with the same period of the previous year, due partly to increases in import prices for crude oil.

Operating income decreased by 60.2% against the same period of the preceding year to ¥6.9 billion, mainly due to the negative effect of inventory valuation, which was partially offset by factors such as higher product margins.

[Petrochemical products segment]

Net sales of the petrochemical products segment for the three months ended June 30, 2017 were ¥114.3 billion, an increase of 6.7% from the same period of fiscal 2016, due largely to increases in naphtha prices on a customs clearance basis.

Operating income of the segment was ¥10.2 billion, up 9.7% from the same period of the previous year, mainly due to the increased fuel costs for manufacturing, which was partially offset by factors such as favorable margins on styrene monomer and other products.

[Resources segment]

(Oil exploration and production business)

Net sales of the oil exploration and production business for the three months ended June 30, 2017 were ¥19.2 billion, up 21.4% from the corresponding period of the previous year, bolstered primarily by a significant increase in crude oil prices, with operating income of ¥6.8 billion, an increase of ¥8.3 billion from the same period of the preceding year.

(Coal business and others)

Net sales of the coal business and others for the three months ended June 30, 2017 were ¥53.0 billion, up 49.7% compared with the same period of last year, helped largely by a significant increase in coal prices, with operating income of ¥11.6 billion, an increase of ¥11.4 billion from the same period of the preceding year.

As a result, total net sales of resource businesses increased by 41.0% compared with the same period of the previous year to ¥72.2 billion, and operating income was ¥18.4 billion, an increase of ¥19.7 billion from the corresponding period of the previous year.

[Other segments]

Net sales of the other segments for the three months ended June 30, 2017 increased by 17.7% from the same period of last year to ¥14.2 billion, and operating income was ¥0.6 billion, an increase of ¥0.5 billion from the corresponding period of the previous year.

## (2) Explanation of Financial Position

Total assets as of June 30, 2017 decreased by ¥12.9 billion from the end of the previous fiscal year to ¥2,628.7 billion, due mainly to decreases in notes and accounts receivable-trade as well as inventories despite increases in cash and deposits. Total liabilities as of June 30, 2017 decreased by ¥27.8 billion from the end of the previous fiscal year to ¥1,993.9 billion, due mainly to decreases in notes and accounts payable-trade despite increases in interest-bearing debts (¥1,059.0 billion as of June 30, 2017) as well as accounts payable-other.

Total net assets as of June 30, 2017 grew by ¥14.8 billion from the end of the preceding fiscal year to ¥634.8 billion. Meanwhile, the equity ratio as of June 30, 2017 was 22.9% improved by 0.8% from 22.1% at the end of fiscal 2016.

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

The Company has not revised the forecasts of the consolidated financial results for the year ending March 31, 2018 released on May 15, 2017.

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

### (1) Consolidated Quarterly Balance Sheets

(Unit: ¥Million)

	FY 2016 (As of March 31, 2017)	1st Quarter of FY2017 (As of June 30, 2017)
<b>Assets</b>		
Current assets:		
Cash and deposits	91,423	141,645
Notes and accounts receivable, trade	327,402	290,100
Inventories	430,861	421,480
Other	112,712	106,507
Less: Allowance for doubtful accounts	(2,629)	(2,787)
Total current assets	959,770	956,947
Fixed assets:		
Property, plant and equipment:		
Machinery and equipment, net	203,493	193,862
Land	584,350	585,527
Other, net	234,241	237,132
Total property, plant and equipment	1,022,086	1,016,522
Intangible fixed assets	22,124	21,369
Investments and other assets:		
Investment securities	414,455	410,431
Oil field premium assets	30,617	20,854
Other	193,036	203,023
Less: Allowance for doubtful accounts	(457)	(457)
Total investments and other assets	637,652	633,851
Total fixed assets	1,681,863	1,671,743
Total assets	2,641,633	2,628,690
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable, trade	331,602	296,735
Short-term loans payable	357,566	318,569
Commercial paper	104,005	145,001
Current portion of bonds payable	10,000	10,000
Accounts payable, other	231,990	242,211
Income taxes payable	14,529	22,540
Provision for bonuses	8,247	2,993
Other	87,036	84,381
Total current liabilities	1,144,978	1,122,434
Non-current liabilities:		
Bonds payable	55,000	55,000
Long-term loans payable	524,115	528,778
Liability for employees' retirement benefits	15,093	15,122
Reserve for repair work	28,357	31,780
Asset retirement obligations	78,132	77,377
Oil field premium liabilities	38,114	27,766
Other	137,908	135,672
Total non-current liabilities	876,722	871,498
Total liabilities	2,021,700	1,993,932

(Unit: ¥Million)

	FY 2016 (As of March 31, 2017)	1st Quarter of FY2017 (As of June 30, 2017)
Net assets		
Shareholders' equity:		
Common stock	108,606	108,606
Capital surplus	71,131	71,131
Retained earnings	249,549	272,501
Treasury stock	(131)	(131)
Total shareholders' equity	429,156	452,107
Accumulated other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	7,617	7,853
Deferred gains (losses) on hedging activities, net	(7,713)	(7,589)
Surplus from land revaluation	155,541	155,541
Foreign currency translation adjustments	318	(5,707)
Defined retirement benefit plans	(1,119)	(835)
Total accumulated other comprehensive income	154,644	149,262
Noncontrolling interests	36,132	33,387
Total net assets	619,932	634,758
Total liabilities and net assets	2,641,633	2,628,690



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

## 1) Consolidated Quarterly Statements of Income

(Unit: ¥Million)

	1st Quarter of FY2016 (From April 1, 2016 to June 30, 2016)	1st Quarter of FY2017 (From April 1, 2017 to June 30, 2017)
Net sales	678,761	831,713
Cost of sales	589,357	729,567
Gross profit	89,404	102,146
Selling, general and administrative expenses	64,831	67,562
Operating income	24,573	34,583
Non-operating income:		
Interest income	525	913
Dividend income	870	1,335
Equity in earnings of nonconsolidated subsidiaries and affiliates, net	996	5,297
Other	842	265
Total non-operating income	3,235	7,811
Non-operating expenses:		
Interest expense	2,367	2,443
Loss on foreign exchange, net	728	335
Other	524	564
Total non-operating expenses	3,619	3,343
Ordinary income	24,189	39,051
Extraordinary income:		
Gain on sales of fixed assets	48	15
Gain on sale of affiliate stock	39	—
Other	18	3
Total extraordinary income	107	18
Extraordinary loss:		
Impairment loss on fixed assets	85	17
Loss on sales of fixed assets	23	10
Loss on disposals of fixed assets	821	303
Total extraordinary loss	931	332
Income before income taxes	23,365	38,737
Income taxes	4,809	12,071
Net income	18,555	26,665
Net income attributable to noncontrolling interests	144	1,298
Net income attributable to owners of the parent	18,411	25,367

## 2) Consolidated Quarterly Statements of Comprehensive Income

(Unit: ¥Million)

	1st Quarter of FY2016 (From April 1, 2016 to June 30, 2016)	1st Quarter of FY2017 (From April 1, 2017 to June 30, 2017)
Net income	18,555	26,665
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(1,150)	(77)
Deferred gains (losses) on hedging activities, net	913	1,013
Foreign currency translation adjustments	(5,155)	(4,360)
Defined retirement benefit plans	347	282
Share of other comprehensive income in equity method affiliates	(6,897)	(3,952)
Total other comprehensive income	(11,943)	(7,094)
Comprehensive income	6,612	19,571
Comprehensive income attributable to:		
Owners of the parent	7,121	19,327
Noncontrolling interests	(509)	243

(3) Notes to the Consolidated Financial Statements

1) Notes on the Assumption of a Going Concern  
None

2) Notes on Significant Changes in Shareholders' Equity  
None

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 three months ended June 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

First Quarter of FY2016 (From April 1, 2016 to June 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	508,441	107,058	51,235	666,735	12,025	678,761	—	678,761
Inter-segment	2,067	880	0	2,948	1,006	3,954	(3,954)	—
Total	510,509	107,939	51,235	669,684	13,032	682,716	(3,954)	678,761
Operating income(loss)	17,280	9,274	(1,288)	25,266	54	25,320	(747)	24,573

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 (loss) mainly represents research and development costs, which do not belong to reportable segments.
3. The operating income (loss) of the reportable segments was 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 was no significant item during the period.

First Quarter of FY2017 (From April 1, 2017 to June 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	631,072	114,252	72,233	817,559	14,154	831,713	—	831,713
Inter-segment	1,608	866	266	2,741	90	2,832	(2,832)	—
Total	632,681	115,119	72,500	820,300	14,245	834,546	(2,832)	831,713
Operating income	6,881	10,174	18,383	35,439	579	36,018	(1,435)	34,583

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 was 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) ¥(592) million      (Petrochemical products) ¥2,652 million  
(Resources) ¥530 million      (Others) ¥2,741 million      (Reconciliation) ¥(35) million

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

There was no significant item during the period.

5) Significant Subsequent Events

Idemitsu Kosan Co., Ltd. (the “Company”) has determined the issuance of new shares resolved at the Board of Directors’ meeting held on July 3, 2017, and has determined the issue price and other matters on July 12, 2017. The payment has been completed on July 20, 2017.

**Issuance of New Shares by Way of Global Offering**

- ① Class and Number of Shares Offered      Total of a, b and c below, 48,000,000 shares of common stock of the Company.
  - a 33,600,000 shares of common stock of the Company underwritten and purchased by the Japanese underwriters in the Japanese public offering.
  - b 8,139,200 shares of common stock of the Company underwritten and purchased by the international managers in the international offering.

- c 6,260,800 shares of common stock of the Company additionally issued and purchased by the international managers in the international offering upon exercise of the over-allotment option.

② Issue Price (Offer Price)	<u>2,600 yen per share</u>
③ Aggregate Amount of Issue Price	<u>124,800,000,000 yen</u>
④ Amount Paid in	<u>2,489.36 yen per share</u>
⑤ Aggregate Amount of Amount Paid in	<u>119,489,280,000 yen</u>
⑥ Amount of Stated Capital and Additional Paid-in Capital Increased	<u>The amount of stated capital increased</u> <u>59,744,640,000 yen</u> <u>The amount of additional paid-in capital increased</u> <u>59,744,640,000 yen</u>
⑦ Payment Date	<u>July 20, 2017</u>

(Note)

Underwriters underwrote and purchased the shares at the amount paid in, and offered the same at the issue price (offer price).

### **Use of Proceeds**

The Company plans to apply all of the aggregate amount to (i) fund investments and loans for Nghi Son Refinery and Petrochemical LLC, an affiliate of the Company; P.T. Idemitsu Lube Techno Indonesia and Idemitsu Lube India Pvt Ltd., the Company's overseas subsidiaries; Idemitsu Q8 Petroleum LLC, a joint venture of the Company and Kuwait Petroleum International Ltd.; and Idemitsu Formosa Specialty Chemicals Corporation, a joint venture of the Company and Formosa Petrochemical Corp., by the end of March 2020 in a total amount of 25,500 million yen, (ii) fund investments in plant and equipment, such as a C8 splitter (distillation columns) at the Aichi Refinery, OLED materials manufacturing equipment and survey equipment for new geothermal energy business sites by the end of March 2020 in a total amount of 11,220 million yen, (iii) funds for the Company's research and development in advanced technology areas, such as development and expansion of the use of OLED materials, as well as facilities to verify the industrialization of solid electrolytes in a total amount of 15,500 million yen by the end of March 2020. With respect to the remaining amounts, the Company repaid the short-term loan(s), which was in the amount of 159,000 million yen, that the Company borrowed from a financial institution upon the acquisition of Showa Shell Sekiyu K.K. shares.