

# TonenGeneral Sekiyu K.K.

## 3Q 2015 Financial Results

November 13, 2015

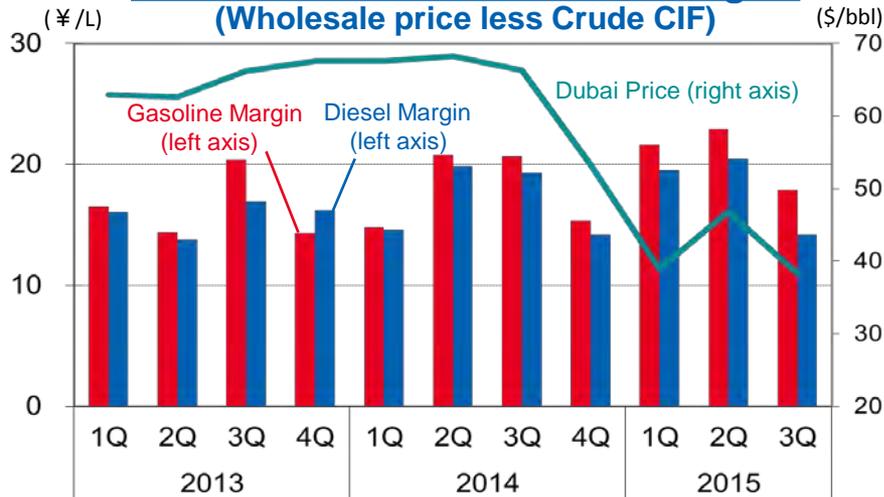
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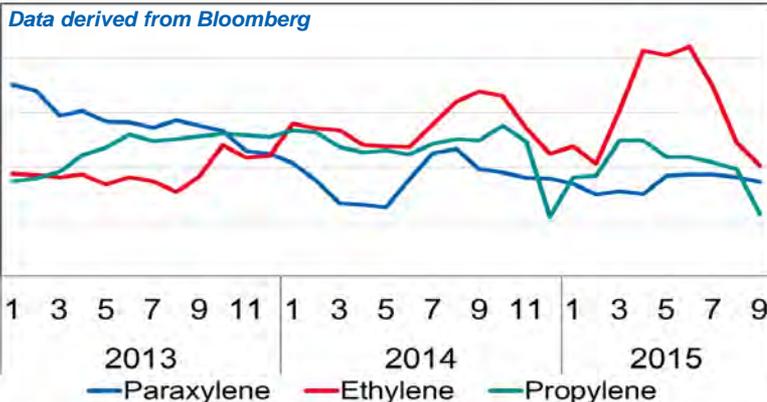
# 3Q15 Business Environment

## Domestic Petroleum Product Margins (Wholesale price less Crude CIF)



Source: PAJ and Oil Information Center

## Chemical Price Spread vs. Naphtha



## Oil Segment

- ❑ Crude prices ended 3Q about \$17/bbl below 2Q end
- ❑ 3Q domestic margins deteriorated until August with some upturn in September
  - Diesel margins particularly weak
- ❑ 3Q15 domestic major 5 fuels demand : -2.2% vs. 3Q14
  - Gasoline & Distillate : +0.7%
  - Fuel Oil C: -20.6% on lower power use
- ❑ Export margins favorable yet lower than 2Q

## Chemical Segment

- ❑ Ethylene margin receded from historical high in 2Q returning to 2014 level
- ❑ Propylene margins fell significantly in September on China related factors
- ❑ Aromatics margins stable but under continuing pressure from new capacity

# 3Q15 YTD Financial Highlights

- Operating income was 10.1 billion yen, a 17.0 billion yen increase
  - Oil : +60.1 billion yen from improved margins
  - Chemical : +7.5 billion yen, helped by strong ethylene margins
  - Inventory : 60.1 billion yen loss, -50.4 billion yen vs. 3Q14 YTD, due to lower crude / product prices
- Net income of 1.6 billion yen includes two largely offsetting factors: extraordinary gain on LPG split-off to Gyxis in 2Q (9.6 billion yen) and tax items

(billion yen)	3Q14 YTD	3Q15 YTD	Inc./Dec.
Net Sales	2,618.4	2,043.8	-574.7
<b>Operating income</b>	<b>-6.9</b>	<b>10.1</b>	<b>17.0</b>
Ordinary income	-7.2	7.9	15.1
Extraordinary gain/loss	-1.6	8.1	9.7
<b>Net income</b>	<b>-9.0</b>	<b>1.6</b>	<b>10.5</b>

(Breakdown of operating income)

Inventory gain/loss	-9.7	-60.1	-50.4
Goodwill amortization	-13.0	-13.1	-0.1
<b>Adjusted Operating income</b>	<b>15.8</b>	<b>83.3</b>	<b>67.5</b>
Oil segment	1.0	61.1	60.1
Chemical segment	14.8	22.3	7.5

Oil segment	
<b>3Q14YTD</b>	<b>1.0</b>
• Margin	60.2
• Volume	-0.4
• Opex	0.3
<b>3Q15YTD</b>	<b>61.1</b>

Chemical segment	
<b>3Q14YTD</b>	<b>14.8</b>
• Margin/vol.	8.3
• Opex	-0.8
<b>3Q15YTD</b>	<b>22.3</b>

# Factor Analysis of 3Q15 Operating Income

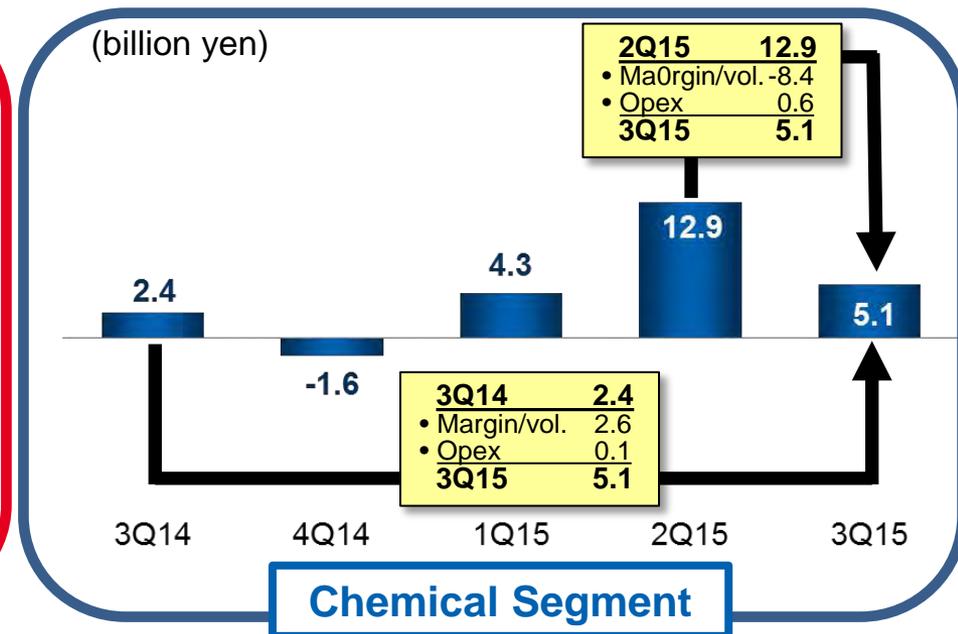
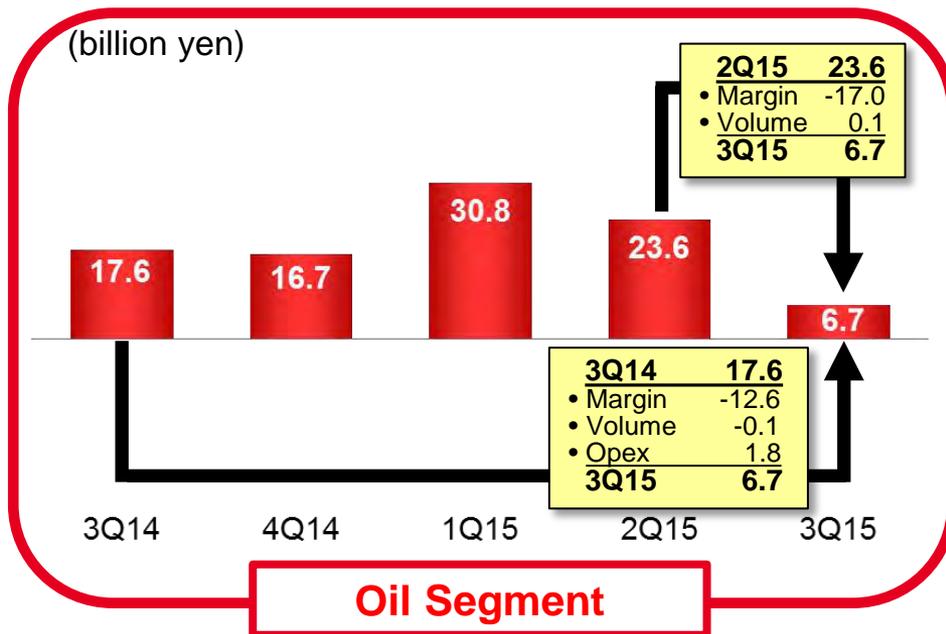
## Oil Segment

- TG advantages bolstered profit in a weakening margin environment:
  - Flexible crude acquisition
  - Focus on domestic mogas sales where margins have held up better
  - Distillate and mogas exports to capture margin opportunities

## Chemical Segment

- Lower 3Q15 earnings vs. 2Q15 mainly due to lower olefin margins

### Quarter to Quarter Adjusted Operating Income (3Q14 through 3Q15)



# Sales Volume\*1

Product	3Q14 YTD	3Q15 YTD	Inc./Dec.	Inc./Dec.
<b>Oil products (KKL)</b>				Industry
Gasoline	7,978	<b>8,068</b>	1.1%	-0.6%
Kerosene	2,009	<b>1,824</b>	-9.2%	-5.1%
Diesel Fuel	2,980	<b>2,855</b>	-4.2%	-0.1%
Fuel Oil A	1,116	<b>934</b>	-16.3%	-7.9%
Fuel Oil C	1,701	<b>1,594</b>	-6.3%	-14.1%
LPG/Jet/Others	3,669	<b>3,335</b>	-9.1%	
<b>Domestic sales total*2</b>	<b>19,454</b>	<b>18,610</b>	<b>-4.3%</b>	
<b>Export</b>	<b>5,224</b>	<b>5,816</b>	<b>11.3%</b>	
<b>Oil products</b>	<b>24,678</b>	<b>24,426</b>	<b>-1.0%</b>	
<b>Chemical Products (Kton)</b>				
Olefins and others	1,130	<b>1,197</b>	5.9%	
Aromatics	602	<b>650</b>	8.1%	
Specialties	170	<b>164</b>	-3.6%	
<b>Chemical products</b>	<b>1,902</b>	<b>2,012</b>	<b>5.8%</b>	
<b>Topper Utilization*3</b>	<b>81%</b>	<b>83%</b>		
				Industry 3Q15 YTD 83%

□ Domestic oil product sales drop partially offset by growth in export

- Domestic mogas sales increase capturing favorable margin
- Continued strong mogas / distillate exports
- Optimization efforts focus on reducing FOC production and exports

□ Chemical product sales increased due to absence of 3Q14 turnaround

\*1 Restated volume data to include MOCM (former Mitsui Oil Co., Ltd) acquisition effects for both periods

\*2 Bonded sales included in domestic sales

\*3 Utilization for TonenGeneral four refineries and excluding the decommissioned 2 toppers for both periods

# FY2015 Earnings Forecast

- FY2015 operating income 12 billion yen, down 20 billion yen from August forecast
  - Oil and Chemical segment earnings remain unchanged from August forecast
  - Inventory loss increase by 20 billion yen consistent with recent crude and product prices
- 38 yen per share dividend forecast reaffirmed

billion yen	3Q15YTD Actual	FY15 Forecast		Delta
		Aug. Rev.	Nov. Rev.	
Net Sales	2,043.8	2,700	2,650	-50
Operating income	10.1	32	12	-20
Ordinary income	7.9	31	11	-20
Extraordinary gain/loss	8.1	8	8	-
Net income	1.6	15	2	-13
(Breakdown of operating income)				
Inventory gain/loss	-60.1	-45	-65	-20
Goodwill amortization	-13.1	-17	-17	-
Adj. Operating income	83.3	94	94	-
Oil segment	61.1	68	68	-
Chemical segment	22.3	26	26	-

Note) Assumed Dubai (\$46/bbl) and Forex (120Yen/\$) continues through 2015

# Cash Flows, Debt/Equity

□ 3Q15YTD adjusted free cash flow was 97.6 billion yen, driven by strong earnings excluding:

➤ Timing effect of 3QYTD excise tax payment

□ 3Q15YTD net debt decreased by 24.9 billion yen vs. 2014 end

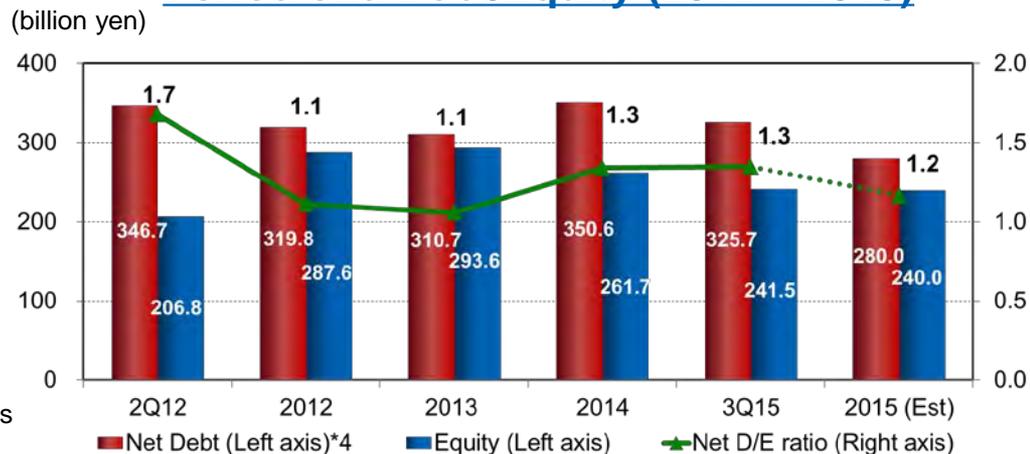
	<u>billion yen</u>
Free cash flow	34.6
Dividend payment	(13.3)
<u>LPG business carve out effect / other</u>	<u>3.6</u>
(Increase)/decrease in net debt	24.9

□ Net D/E ratio to improve from 1.3 at 3Q15 end to 1.2 toward year end

## 3Q15 YTD Cash flow (billion yen)

Net income before taxes*1	66.5
Depreciation*2 / (Capex)	1.7
<u>Working capital changes and others</u>	<u>29.4</u>
<b>Adjusted Free Cash Flow</b>	<b>97.6</b>
<u>Timing of excise taxes payment</u>	<u>-63.0</u>
<b>Free Cash Flow*3</b>	<b>34.6</b>

## Period end Debt/Equity (2012 – 2015)



\*1 Exclude inventory effects and extraordinary gain in investment in Gyxis

\*2 Includes goodwill amortization

\*3 Sum of cash flows from operating and investing activities

\*4 Debt deducting cash and cash equivalents

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# Supplemental Information

# Sales Volume (MOCM volume not included for 1Q14)

## □ Sales volume consistent with net sales

Product	3Q14*1 YTD	3Q15 YTD	Inc./Dec.	Inc./Dec.
<b>Oil products (KKL)</b>				<b>Industry</b>
Gasoline	7,689	<b>8,068</b>	4.9%	-0.6%
Kerosene	1,776	<b>1,824</b>	2.7%	-5.1%
Diesel Fuel	2,821	<b>2,855</b>	1.2%	-0.1%
Fuel Oil A	1,069	<b>934</b>	-12.6%	-7.9%
Fuel Oil C	1,649	<b>1,594</b>	-3.3%	-14.1%
LPG/Jet/Others	3,464	<b>3,335</b>	-3.7%	
<b>Domestic sales total</b>	<b>18,469</b>	<b>18,610</b>	<b>0.8%</b>	
<b>Export</b>	<b>5,036</b>	<b>5,816</b>	<b>15.5%</b>	
<b>Oil products</b>	<b>23,505</b>	<b>24,426</b>	<b>3.9%</b>	
<b>Chemical Products (Kton)</b>				
Olefins and others	1,121	<b>1,197</b>	6.8%	
Aromatics	602	<b>650</b>	8.1%	
Specialties	170	<b>164</b>	-3.6%	
<b>Chemical products</b>	<b>1,893</b>	<b>2,012</b>	<b>6.3%</b>	
				<b>Industry</b>
				<b>3Q15 YTD</b>
<b>Topper Utilization</b>	<b>78%*2</b>	<b>83%*3</b>		<b>83%</b>

- \*1 MOCM volume not included for 1Q14  
 \*2 Utilization for TonenGeneral three refineries and excluding the decommissioned two toppers  
 \*3 Utilization for TonenGeneral four refineries including Chiba refinery and excluding the decommissioned two toppers for both periods

# Sensitivities for 2015 Earnings Forecast

## Base assumptions for the earnings forecast

Key Factors	Unit	Base	Reference
Dubai FOB	US\$/bbl	46	October 2015 average
Exchange Rate	Yen/US\$	120	October 2015 average

Above assumptions used for net sales and inventory effects calculation

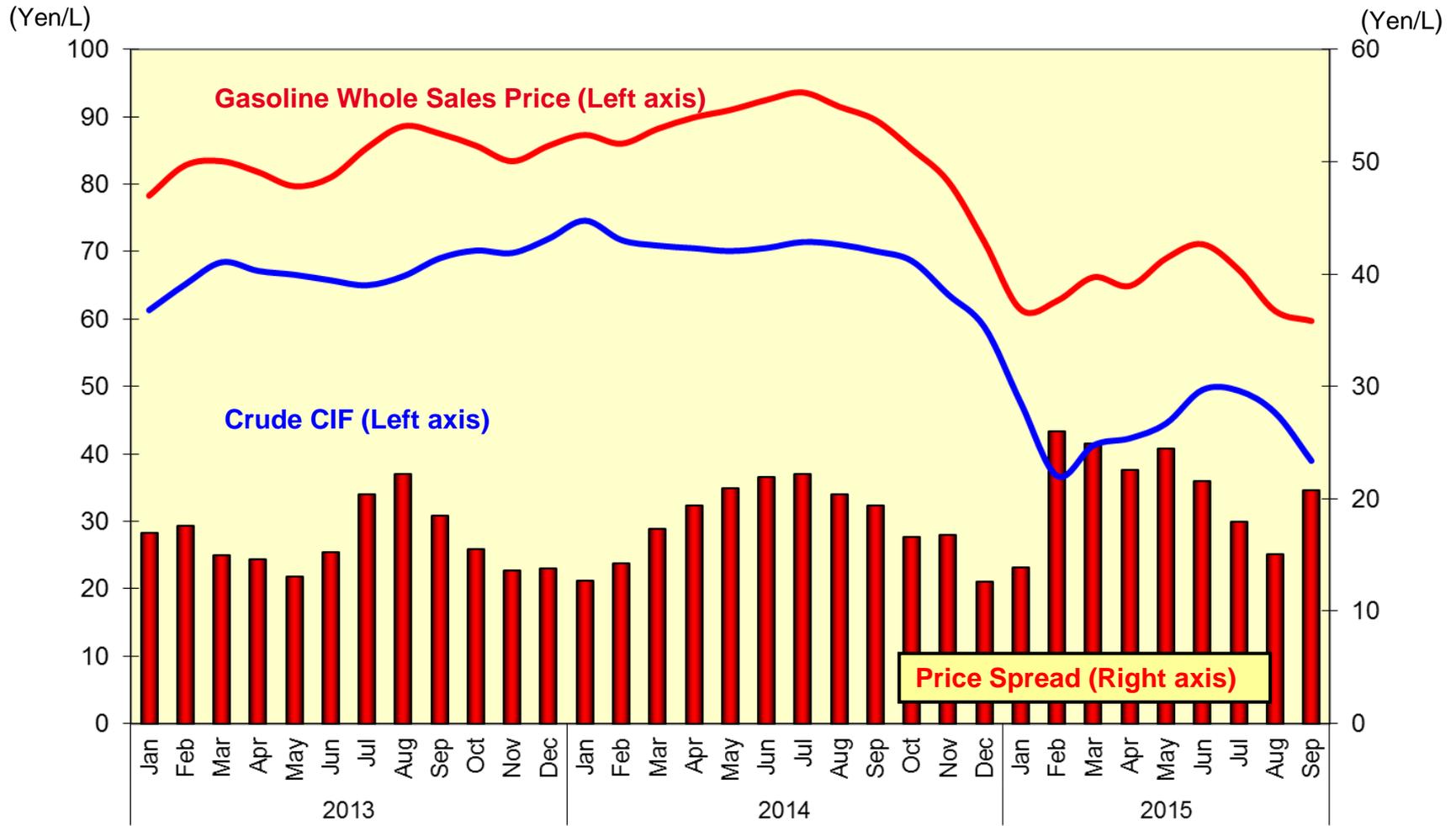
## Full year sensitivities in the future operating income

Key Factors	Unit	Appreciation by	Annual Impact (billion yen) Operating income <sup>*1</sup>
Dubai FOB	US\$/bbl	10	27 <sup>*1</sup>
Exchange Rate	Yen/US\$	10	-22 <sup>*1</sup>
Refining margin	Yen/L	1	37 <sup>*2</sup>

<sup>\*1</sup> Inventory effects only, the sensitivity would change subject to timing of crude price fluctuation and inventory volume

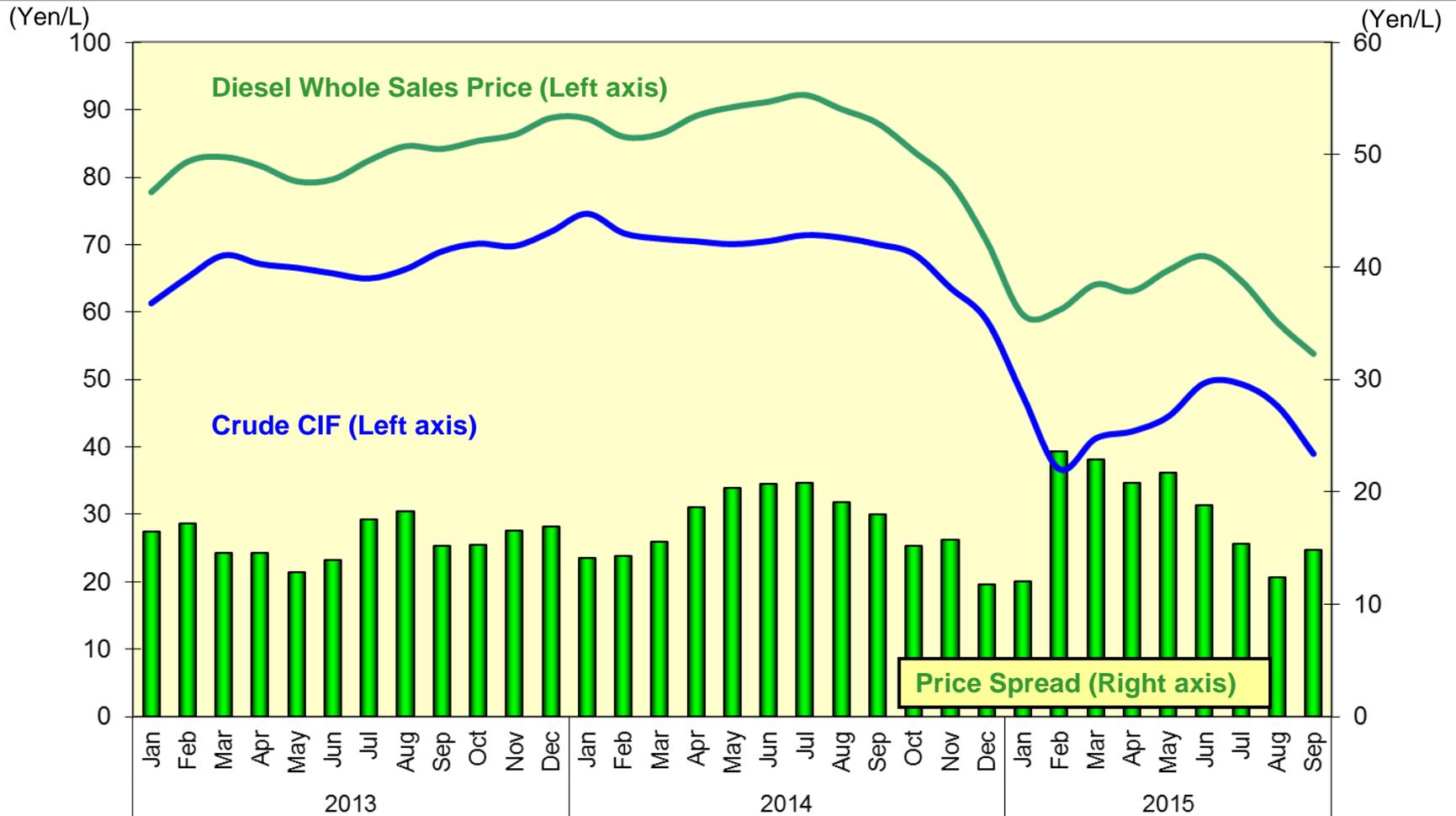
<sup>\*2</sup> Impact to operating income on annual basis rounded to nearest billion yen subject to change in sales volume

# Price Spread (Gasoline Wholesale Price vs. Crude CIF)



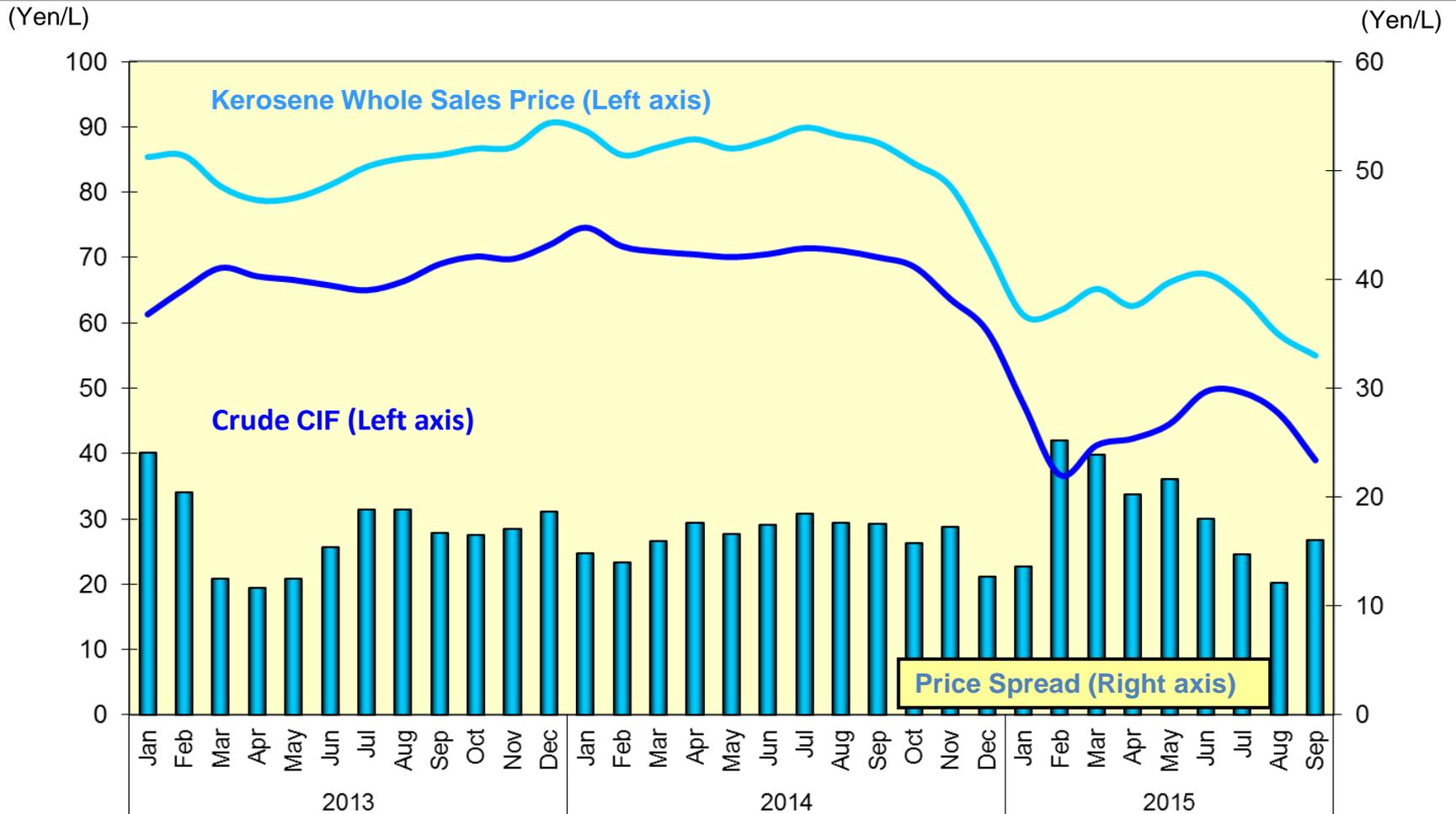
Source: PAJ and The Oil Information Center

# Price Spread (Diesel Wholesale Price vs. Crude CIF)



Source: PAJ and The Oil Information Center

# Price Spread (Kerosene Wholesale Price vs. Crude CIF)



Source: PAJ and The Oil Information Center

# Details of Operating Income (2013 – 3Q15)

2015

(Unit: billion yen)

Breakdown of Operating Income	1Q15	2Q15	3Q15	4Q15	FY2015	1H15	3Q15YTD
Oil segment (Substantial)	30.8	23.6	6.7			54.4	61.1
Chemical segment (Substantial)	4.3	12.9	5.1			17.2	22.3
Inventory effects	-45.0	22.8	-38.0			-22.1	-60.1
Goodwill amortization	-4.4	-4.4	-4.4			-8.7	-13.1
<b>Total</b>	<b>-14.2</b>	<b>54.9</b>	<b>-30.6</b>			<b>40.7</b>	<b>10.1</b>

2014

Breakdown of Operating Income	1Q14	2Q14	3Q14	4Q14	FY2014	1H14	3Q14YTD
Oil segment (Substantial)	-17.3	0.6	17.6	16.7	17.7	-16.6	1.0
Chemical segment (Substantial)	7.8	4.5	2.4	-1.6	13.2	12.3	14.8
Inventory effects	0.1	-3.6	-6.2	-76.8	-86.5	-3.5	-9.7
Goodwill amortization	-4.2	-4.4	-4.4	-4.4	-17.3	-8.6	-13.0
<b>Total</b>	<b>-13.6</b>	<b>-2.8</b>	<b>9.5</b>	<b>-66.0</b>	<b>-72.9</b>	<b>-16.4</b>	<b>-6.9</b>

2013

Breakdown of Operating Income	1Q13	2Q13	3Q13	4Q13	FY2013	1H13	3Q13YTD
Oil segment (Substantial)	13.6	-10.5	5.8	-7.2	1.7	3.1	8.9
Chemical segment (Substantial)	7.6	2.9	3.9	6.3	20.6	10.5	14.3
Inventory effects	25.7	0.1	13.2	7.9	47.0	25.9	39.0
Goodwill amortization	-4.2	-4.2	-4.2	-4.2	-16.9	-8.5	-12.7
<b>Total</b>	<b>42.7</b>	<b>-11.8</b>	<b>18.6</b>	<b>2.8</b>	<b>52.3</b>	<b>30.9</b>	<b>49.5</b>