

# TonenGeneral Sekiyu K.K.

## 1Q 2014 Financial Results

May 15, 2014

- This material contains forward-looking statements based on projections and estimates that involve many variables. TonenGeneral Sekiyu operates in an extremely competitive business environment and in an industry characterized by rapid changes in supply-demand balance. Certain risks and uncertainties including, without limitation, general economic conditions in Japan and other countries, crude and product prices and the exchange rate between the yen and the U.S. dollar, could cause the Company's results to differ materially from any projections and estimates presented in this publication.
- The official language for TonenGeneral Sekiyu's filings with the Tokyo Stock Exchange and Japanese authorities, and for communications with our shareholders, is Japanese. We have posted English versions of some of this information on this website. While these English versions have been prepared in good faith, TonenGeneral Sekiyu does not accept responsibility for the accuracy of the translations, and reference should be made to the original Japanese language materials.



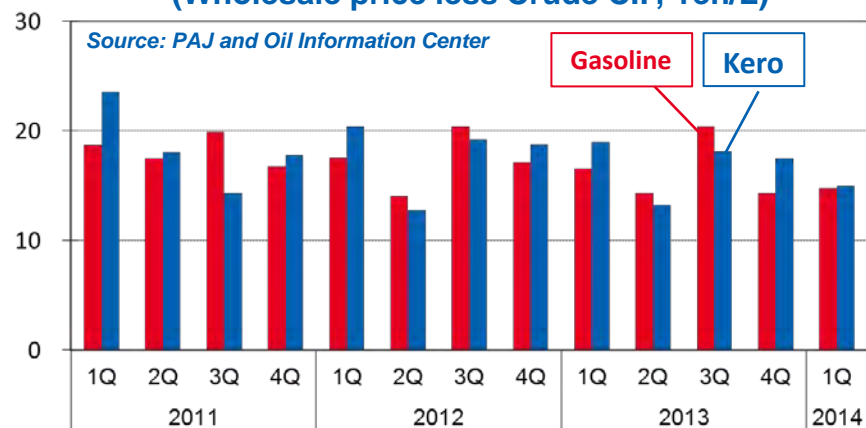
東燃ゼネラル石油株式会社

# 1Q14 Company Key Items

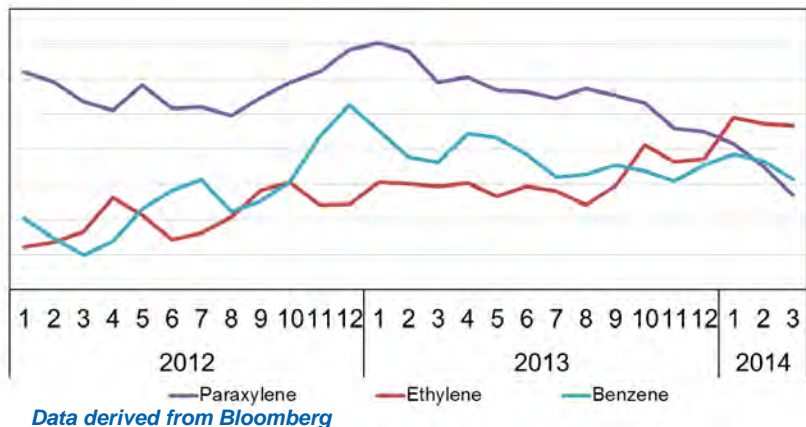
- ❑ Optimization of manufacturing capabilities achieved by March end
  - Decommissioned the 2 TG toppers on schedule and reduced Kyokuto Petroleum Industries Ltd. (KPI) topper capacity by 23KBD to 152KBD
  - Expanded H-Oil capacity to 34.5 KBD
    - Minimal schedule and economic impact from Kawasaki H-Oil early March fire incident
- ❑ Continue to advance collaboration in industrial complexes
  - Further expanded feedstock optimization with Toa Oil in Kawasaki
  - Discussions on-going regarding collaboration with Cosmo in Chiba area
    - Captured feedstock optimization and product exports co-loading opportunities
- ❑ Smooth integration with MOC Marketing K.K. (MOCM)
  - For accounting purposes, consolidated MOCM and KPI at March end
  - 10.5 billion yen of goodwill, to be amortized over 20 years
  - Integration of supply and marketing operations advancing swiftly
- ❑ Due to weak domestic Oil margins crude runs managed at 83% of capacity
  - 5% lower sales volume vs. 1Q13
- ❑ Strong olefins margins and record quarter of aromatics sales

# 1Q14 Business Environment

## Domestic Petroleum Product Margins (Wholesale price less Crude CIF, Yen/L)



## Chemical Price Spread vs. Naptha



## Oil Segment

- Intense competition pressured 1Q14 prices while supply costs rose

	vs. 1Q13
Crude CIF (Yen/L)	11.4%
Gasoline (Yen/L)	7.0%

- 1Q14 domestic major fuel demand: -0.7%
  - G&D +1.2% helped by pre-lifting in March
  - Fuel Oil C -9.3% less power use demand
- Export distillate margins above domestic while FOC export values deteriorated

## Chemical Segment

- Ethylene margins favorable due to tighter supply from turnarounds in the region
- Downward vector for aromatics
  - New paraxylene capacity additions coupled with modest polyester / PTA demand

# 1Q14 Financial Highlights

- Operating income was negative 13.6 billion yen, a 56.3 billion yen decline from 1Q13
  - Absence of 1Q13 inventory gains (-25.7 billion yen)
  - Oil Segment depressed (-30.9 billion yen) while Chemical almost flat (+0.3 billion yen)
- 0.7 billion yen non-operating loss mainly from interest expense and 1.3 billion yen extra-ordinary loss mainly from settlement of the late 1990's SDF bidding case

billion yen	1Q13	1Q14	Inc./Dec.
Net Sales	797.6	<b>821.4</b>	23.8
<b>Operating income</b>	42.7	<b>-13.6</b>	<b>-56.3</b>
Ordinary income	41.5	<b>-14.3</b>	-55.8
Extraordinary gain/loss	-0.1	<b>-1.3</b>	-1.2
<b>Net income</b>	25.2	<b>-10.7</b>	<b>-35.9</b>

(Breakdown of operating income)

Inventory gain/loss	25.7	<b>0.1</b>	-25.7
Goodwill amortization	-4.2	<b>-4.2</b>	-
<b>Adjusted Operating income</b>	21.2	<b>-9.4</b>	<b>-30.6</b>
<b>Oil segment</b>	13.6	<b>-17.3</b>	-30.9
<b>Chemical segment</b>	7.6	<b>7.8</b>	0.3

# Factor Analysis of 1Q14 Operating Income

## Oil

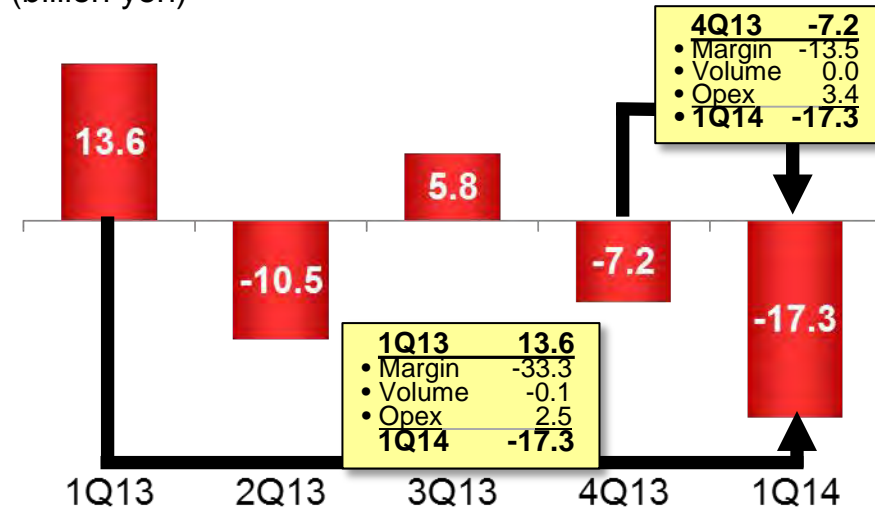
- Versus 1Q13 and 4Q13, depressed margins and H-Oil unit maintenance were partly offset by opex savings
- Distillate export advantage to domestic shrank and FOC's export disadvantage grew

## Chemical

- Favorable olefins (mainly ethylene) margins and opex savings offset by weakening paraxylene margins

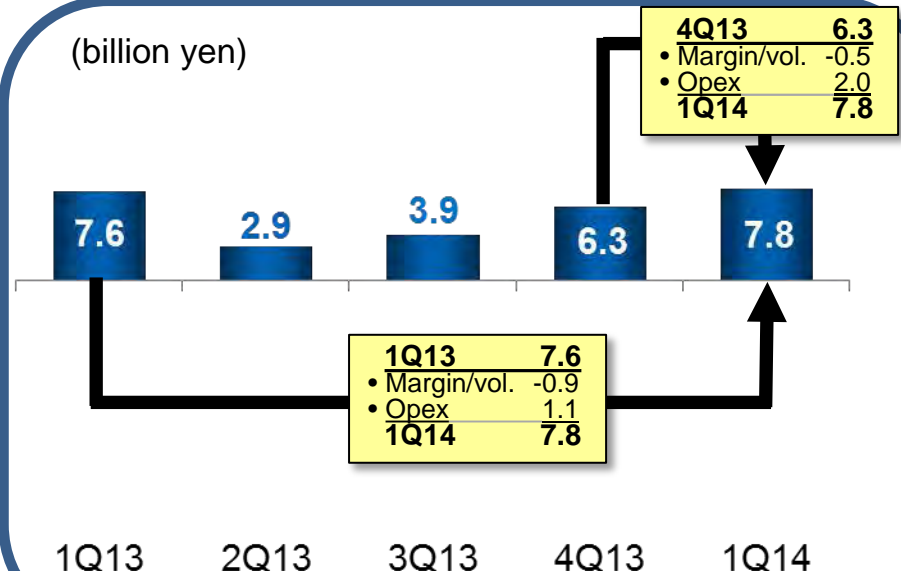
### Quarter to Quarter Adjusted Operating Income (1Q13 through 1Q14)

(billion yen)



**Oil Segment**

(billion yen)



**Chemical Segment**

# Sales Volume

Product	1Q13	1Q14	Inc./Dec.	Inc./Dec. Industry
<b>Oil products (KKL)</b>				
Gasoline	2,619	<b>2,281</b>	-12.9%	1.4%
Kerosene	1,059	<b>779</b>	-26.5%	-1.5%
Diesel Fuel	827	<b>816</b>	-1.3%	4.0%
Fuel Oil A	436	<b>383</b>	-12.2%	0.2%
Fuel Oil C	508	<b>533</b>	4.8%	-9.3%
LPG/Jet/Others	874	<b>1,056</b>	+20.8%	
Domestic sales total *1	6,324	<b>5,847</b>	-7.5%	
Export	1,355	<b>1,438</b>	6.1%	
Oil products	7,678	<b>7,284</b>	-5.1%	
<b>Chemical Products (Kton)</b>				
Olefins and others	397	<b>414</b>	4.5%	
Aromatics	180	<b>213</b>	18.3%	
Specialties	61	<b>62</b>	1.1%	
Chemical products	638	<b>690</b>	8.1%	
				Industry
<b>Topper Utilization *2</b>	92%	<b>83%</b>	-9%	2%

❑ Topper utilization cut by 9% vs. 1Q13 while industry crude throughput remained the same

- Lowest margin domestic sales reduced
- Some upturn in domestic FOC sales to reduce low value exports
- Gasoline and Distillate exports grew vs. 1Q13

❑ Another record quarter for aromatics

- Incremental aromatics reduced gasoline by 49 KKL in 1Q14

\*1 Bonded sales volume included in domestic sales

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

# FY2014 Earnings Forecast

- FY2014 operating income 23 billion yen, 12 billion yen lower than Feb. projection
  - Oil : Lowered by 13 billion yen to 27 billion yen reflecting weak 1Q results
  - Chemical : Plus 1 billion yen with all profits in 1H as growing weakness in paraxylene margins leads to breakeven in 2H
- 38 yen per share dividend forecast reaffirmed

billion yen	1Q14 Actual	May Update		Change from Feb Forecast	
		1H14	FY14	1H14	FY14
Net Sales	821.4	<b>1,700</b>	<b>3,700</b>	-100	-200
<b>Operating income</b>	<b>-13.6</b>	<b>0</b>	<b>23</b>	<b>-7</b>	<b>-12</b>
Ordinary income	-14.3	-1	21	-7	-13
Extraordinary gain/loss	-1.3	-1	-1	-1	-1
<b>Net income</b>	<b>-10.7</b>	<b>-4</b>	<b>7</b>	<b>-5</b>	<b>-8</b>
(Breakdown of operating income)					
Inventory gain/loss	0.1	<b>0</b>	<b>0</b>	-	-
Goodwill amortization	-4.2	<b>-8.5</b>	<b>-17</b>	-	-
Adj. Operating income	-9.4	<b>8.5</b>	<b>40</b>	-6.5	-12
<b>Oil segment</b>	<b>-17.3</b>	<b>-4.5</b>	<b>27</b>	<b>-12.5</b>	<b>-13</b>
<b>Chemical segment</b>	<b>7.8</b>	<b>13</b>	<b>13</b>	<b>6</b>	<b>1</b>

Note) Assumed Mar Dubai (\$104/bbl) and Forex (102Yen/\$) continues through 2014

# Cash Flows, Debt/Equity

- 1Q14 net debt increased by 154 billion yen vs. 2013 end

	<u>billion yen</u>
Negative free cash flow	75
Dividend payment	6
MOCM/KPI debt consolidation	73
<b>Total</b>	<b>154</b>

- Continue to diversify debt structure in 1Q14

- Straight bond issuance (35 billion yen)
- Long-term bank debt (30 billion yen)
  - Included 10 billion yen employee's health management loan from DBJ

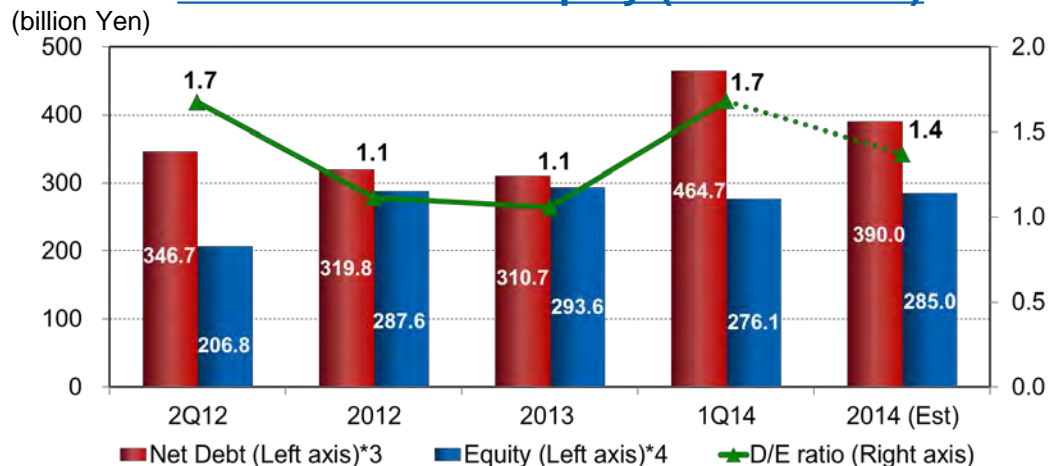
- Net D/E ratio to improve from 1.7 at 1Q14 end to 1.4 toward year end

- Absence of excise tax timing effects
- Working capital optimization of newly acquired businesses

## 1Q14 Cash flow (billion yen)

Net income before taxes	-15.6
Depreciation*1 / (Capex)	5.1
Inventory (increase) / decrease	16.2
Income tax payment / others	-13.7
<b>Adjusted Free Cash Flow</b>	<b>-8.0</b>
MOCM acquisition	-25.5
Timing of excise taxes payment	-41.7
<b>Free Cash Flow *2</b>	<b>-75.2</b>

## Period end Debt/Equity (2012 – 2014)



- \*1 Include goodwill amortization
- \*2 Sum of cash flows from operating and investing activities
- \*3 Debt deducting cash and cash equivalents
- \*4 Net assets deducting minority interests and subscription rights to shares



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# Supplemental Information

# Sensitivities for 2014 Earnings Forecast

## Base assumptions for the earnings forecast

Key Factors	Unit	Base	Reference
Dubai FOB	US\$/Bbl	104	March 2014 average
Exchange Rate	Yen/US\$	102	March 2014 average

Above assumptions used for net sales and inventory effects calculation

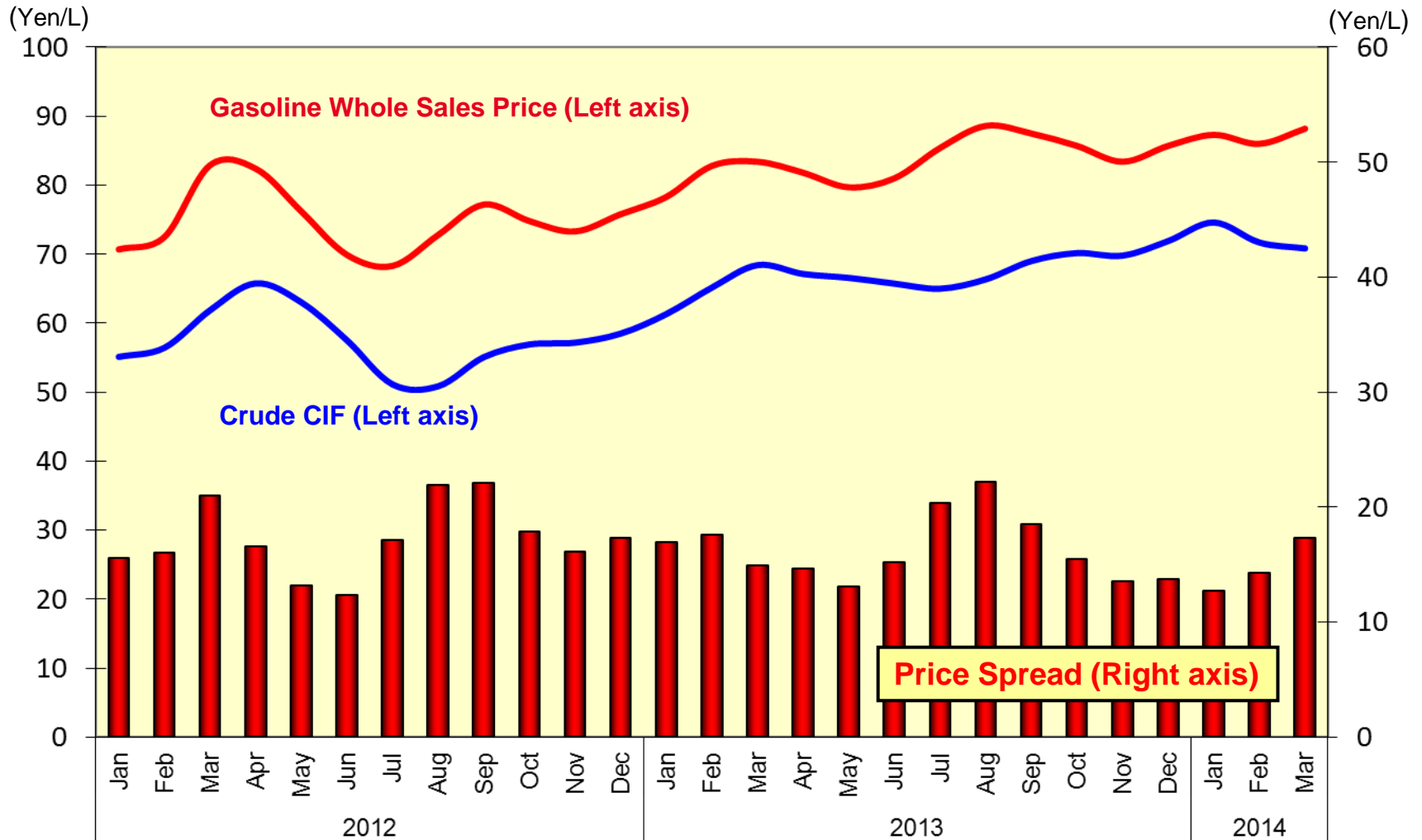
## Full year sensitivities in the future operating income

Key Factors	Unit	Appreciation by	Annual Impact (billion yen) Operating income* <sup>1</sup>
Dubai FOB	US\$/Bbl	10	25* <sup>1</sup>
Exchange Rate	Yen/US\$	10	-26 * <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

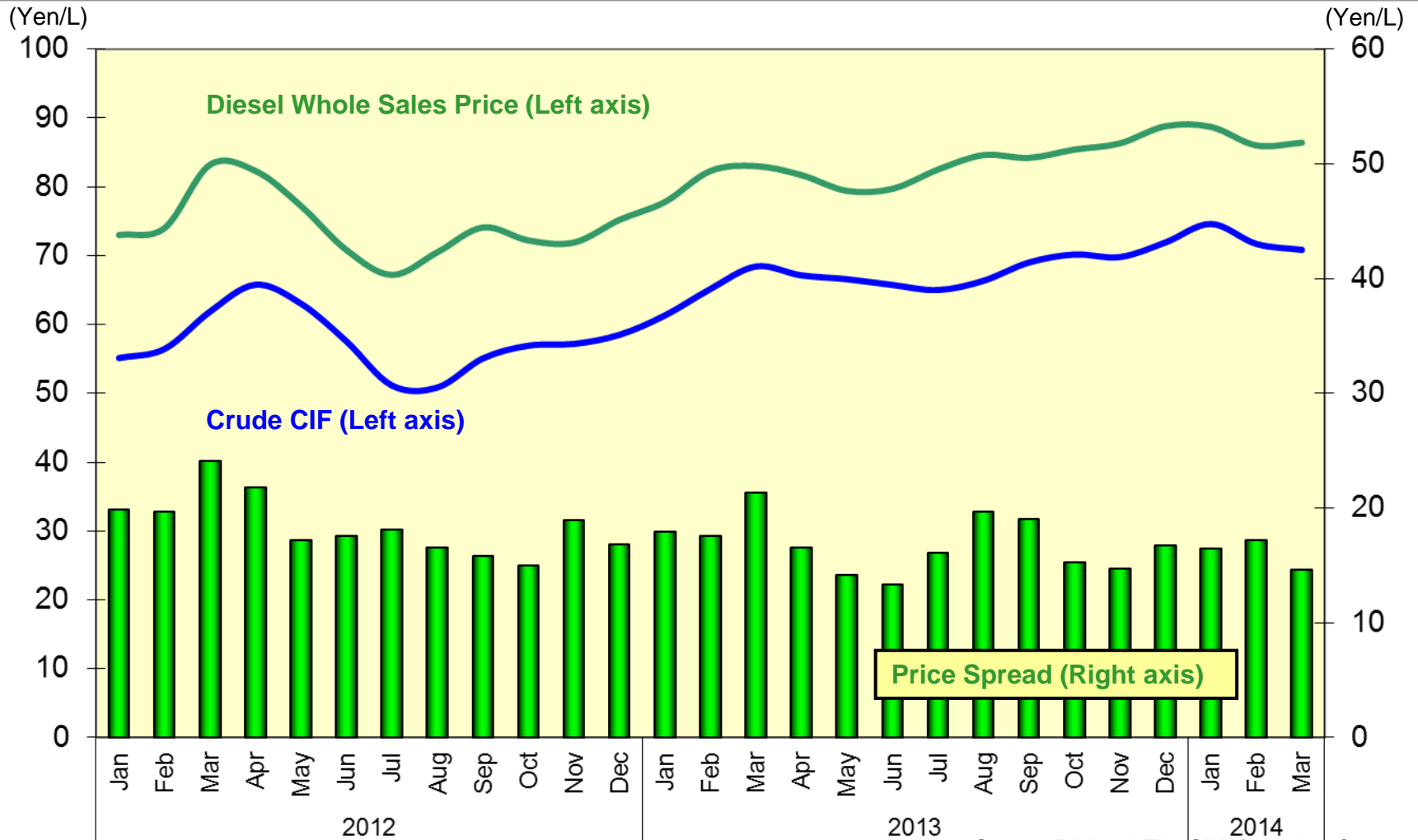
\*<sup>2</sup> Impact to operating income on annual basis rounded to nearest billion yen subject to change in sales volume

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



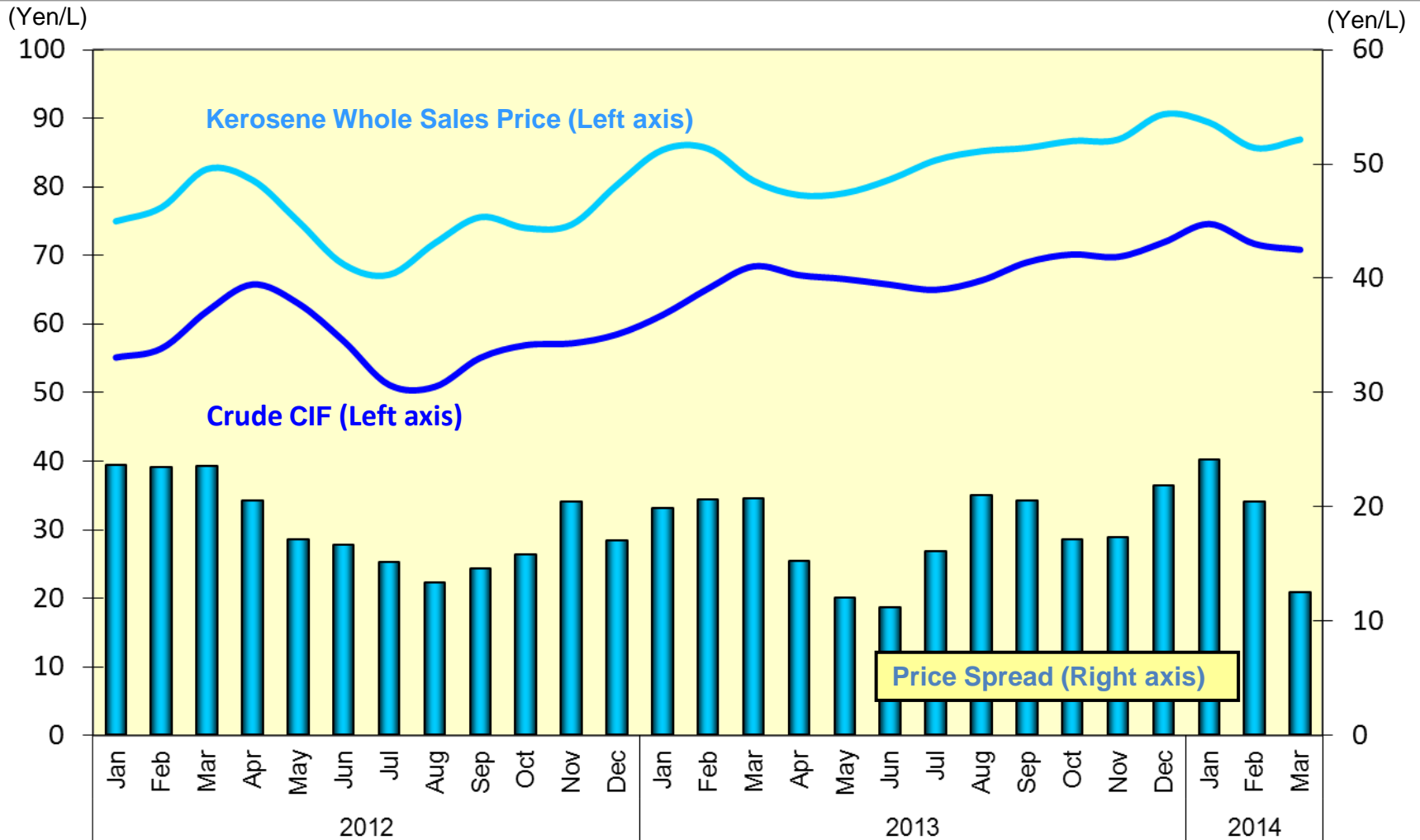
Source: PAJ and The Oil Information Center

# 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 (2012 – 1Q14)

2014

(Unit: billion yen)

Breakdown of Operating Income	1Q14	2Q14	3Q14	4Q14	FY2014	1H14	3Q14YTD
Oil segment (Substantial)	-17.3						
Chemical segment (Substantial)	7.8						
Inventory effects	0.1						
Goodwill amortization	-4.2						
<b>Total</b>	<b>-13.6</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>

2012

Breakdown of Operating Income	1Q12	2Q12	3Q12	4Q12	FY2012	1H12	3Q12YTD
Oil segment (Substantial)	9.1	-13.0	20.8	14.7	31.5	-4.0	16.8
Chemical segment (Substantial)	2.1	-3.5	0.8	0.4	-0.1	-1.4	-0.6
Inventory effects	19.2	-28.3	4.0	9.5	4.4	-9.1	-5.1
Goodwill amortization	-	-	-4.2	-4.2	-8.5	-	-4.2
<b>Total</b>	<b>30.4</b>	<b>-44.8</b>	<b>21.3</b>	<b>20.4</b>	<b>27.3</b>	<b>-14.4</b>	<b>6.9</b>