

# TonenGeneral Sekiyu K.K. 1Q 2016 Financial Results

May 13, 2016

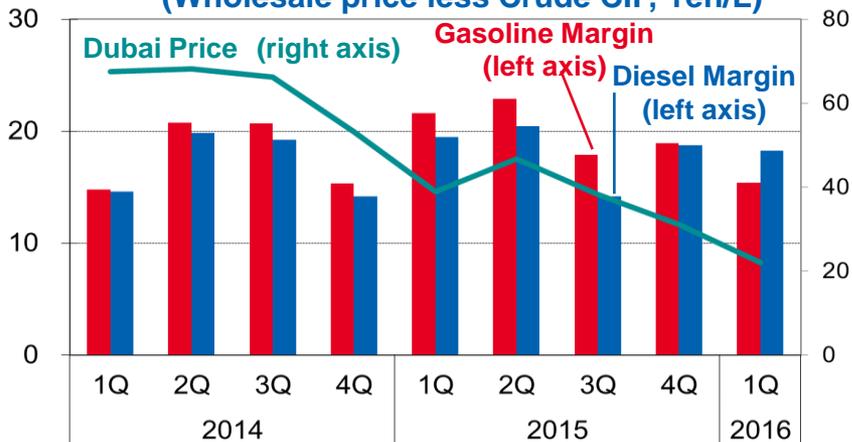
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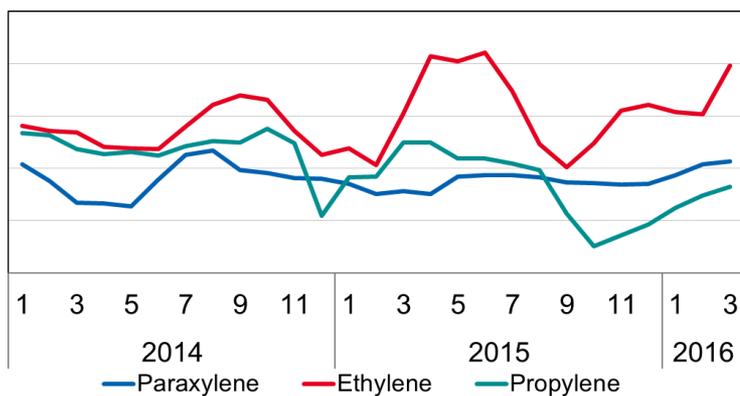
# 1Q16 Business Environment

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



Source: PAJ and Oil Information Center

**Chemical Price Spread vs. Naphtha**



Data derived from Bloomberg

## Oil Segment

- ❑ Crude price dropped to a monthly average of 26.8 \$/bbl in January but gradually increased from February
- ❑ Domestic margins deteriorated in January as product prices dropped prior to crude cost recognition, but improved with crude price increase from February
- ❑ 1Q16 domestic major 5 fuels demand : -3.1% vs. 1Q15
  - Gasoline & distillate +0.2%
  - Fuel Oil C -23.6%, mainly due to less power use demand
- ❑ Distillate export margins weakened while gasoline export margin remained healthy

## Chemical Segment

- ❑ Ethylene remained strong under tight supply and demand balance caused by turnarounds in the region
- ❑ Aromatics margin gradually increased

# 1Q16 Financial Highlights

- Net sales :194.1 billion yen decrease mainly due to decrease in crude / product prices
- Operating income was negative 6.6 billion yen, a 7.6 billion yen increase:
  - Oil : -14.2 billion yen, mogas domestic and distillate export margins narrowed
  - Chemical : +5.2 billion yen, favorable ethylene margins maintained
  - Inventory : +16.6 billion yen, loss from crude & oil product price drop
- Net income\*: 4.9 billion yen loss includes tax effects due to tax reform

billion yen	1Q15	1Q16	Inc./Dec.
Net Sales	663.8	<b>469.8</b>	-194.1
<b>Operating income</b>	<b>-14.2</b>	<b>-6.6</b>	<b>7.6</b>
Ordinary income	-14.9	<b>-8.2</b>	6.7
Extraordinary gain/loss	-0.3	<b>1.2</b>	1.5
<b>Net income*</b>	<b>-25.9</b>	<b>-4.9</b>	<b>21.0</b>

(Breakdown of operating income)

Inventory gain/loss	-45.0	<b>-28.3</b>	16.6
Goodwill amortization	-4.4	<b>-4.4</b>	-
<b>Adjusted Operating income</b>	<b>35.1</b>	<b>26.1</b>	<b>-9.0</b>
<b>Oil segment</b>	<b>30.8</b>	<b>16.5</b>	<b>-14.2</b>
<b>Chemical segment</b>	<b>4.3</b>	<b>9.5</b>	<b>5.2</b>

\* Net income represents the net income attributable to owners of the parent (the Company), excluding non-controlling interests

# Factor Analysis of 1Q16 Operating Income

## Oil

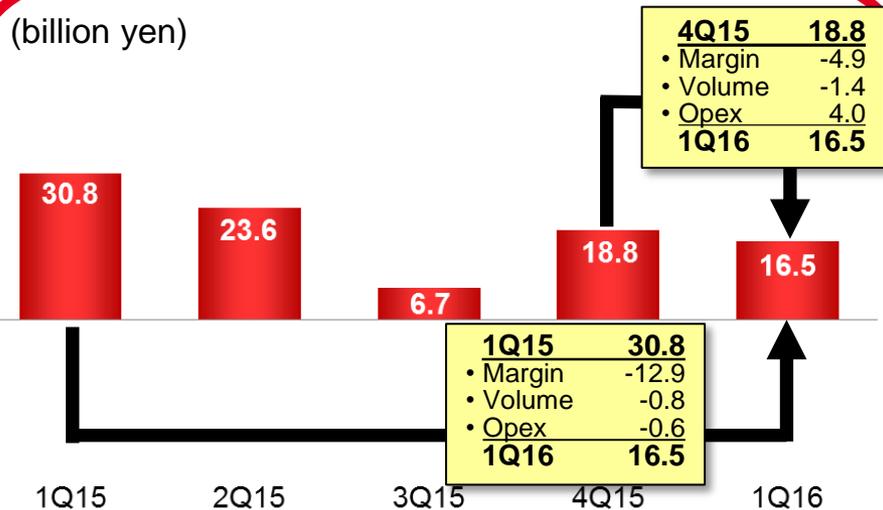
- Versus 1Q15, both domestic and export margin decreased, contributions from crude acquisition diminished
- Versus 4Q15, while export margin improved, domestic margin slightly decreased. Contributions from crude acquisition diminished

## Chemical

- Ethylene margin stayed strong while other chemical product margins improved

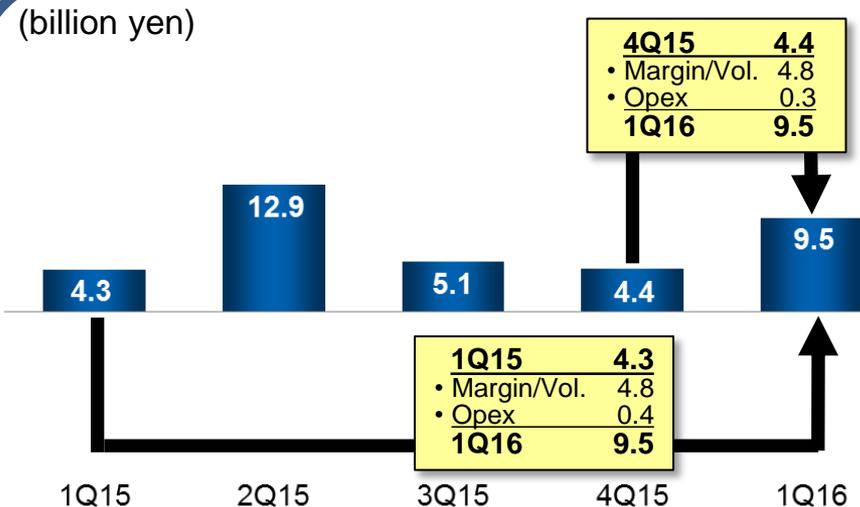
### Quarter to Quarter Adjusted Operating Income (1Q15 through 1Q16)

(billion yen)



**Oil Segment**

(billion yen)



**Chemical Segment**

# Sales Volume

Product	1Q15	1Q16	Inc./Dec.	Inc./Dec. Industry
<b>Oil products (KKL)</b>				
Gasoline	2,466	<b>2,595</b>	5.2%	0.1%
Kerosene	959	<b>939</b>	-2.1%	0.9%
Diesel Fuel	910	<b>956</b>	5.0%	-0.6%
Fuel Oil A	340	<b>419</b>	23.2%	1.0%
Fuel Oil C	605	<b>610</b>	0.7%	-23.6%
LPG/Jet/Other*1	874	<b>932</b>	6.7%	
<b>Domestic sales total *2</b>	<b>6,154</b>	<b>6,450</b>	<b>4.8%</b>	
<b>Export</b>	<b>1,795</b>	<b>1,369</b>	<b>-23.7%</b>	
<b>Oil products</b>	<b>7,949</b>	<b>7,820</b>	<b>-1.6%</b>	
<b>Chemical Products (Kton)</b>				
Olefins and other	402	<b>388</b>	-3.5%	
Aromatics	215	<b>243</b>	13.1%	
Specialties	55	<b>68</b>	22.7%	
<b>Chemical products</b>	<b>673</b>	<b>699</b>	<b>3.9%</b>	
<b>Topper Utilization</b>	<b>83%</b>	<b>82%</b>		
				<b>Industry 1Q16 88%</b>

- Continued domestic / export sales channel margin optimization
  - Rise in mogas sales both in domestic and exports
  - Rise in diesel domestic sales
  - Re-focus on Fuel Oil A domestic sales
  - Upturn in Fuel Oil C for marine fuel
  - Significant drop in distillate export
- Production shift among chemical products , adapting to customer's business termination
- Continued aromatics / gasoline product margin optimization

\*1 Excluding the 2015 volume impact of LPG business split-off to Gyxis

\*2 Bonded sales volume included in domestic sales

# FY2016 Earnings Forecast\*1

- FY2016 operating income 48 billion yen, same as February forecast
  - Oil : 1Q results in line with plan, no change for forecast
  - Chemical : +9 billion yen reflecting 1Q results and high margins in 2Q
  - Inventory losses : 9 billion yen loss anticipated
- 38 yen per share dividend forecast reaffirmed

billion yen	1Q16 Actual	May Update		Change from Feb. Forecast	
		1H16	FY16	1H16	FY16
Net Sales	469.8	<b>1,100.0</b>	<b>2,300.0</b>	-	-
<b>Operating income</b>	<b>-6.6</b>	<b>22.0</b>	<b>48.0</b>	-	-
Ordinary income	-8.2	22.0	47.0	-	-
Extraordinary gain/loss	1.2	-	1.0	-	-
<b>Net income*2</b>	<b>-4.9</b>	<b>17.0</b>	<b>31.0</b>	-	-
(Breakdown of operating income)					
Inventory gain/loss	-28.3	<b>-9.0</b>	<b>-9.0</b>	-9.0	-9.0
Goodwill amortization	-4.4	<b>-8.5</b>	<b>-17.0</b>	-	-
<b>Adj. Operating income</b>	<b>26.1</b>	<b>39.5</b>	<b>74.0</b>	9.0	9.0
Oil segment	16.5	<b>22.5</b>	<b>47.0</b>	-	-
Chemical segment	9.5	<b>17.0</b>	<b>27.0</b>	9.0	9.0

\*1 Assumed Dubai (\$40/bbl) and Forex (110Yen/\$) for the remaining period in 2016

\*2 Net income represents the net income attributable to owners of the parent (the Company), excluding non-controlling interests

# Cash Flows, Debt/Equity

□ 1Q16 adjusted free cash flow was 41.0 billion yen, excluding:

- Timing effect of 1Q excise tax payments (62.7 billion yen)

□ 1Q16 end net debt increased by 29.7 billion yen vs. 2015 end

	billion yen
Free cash flow	(21.7)
Dividend payment and other	(8.0)
<u>(Increase)/decrease in net debt</u>	<u>(29.7)</u>

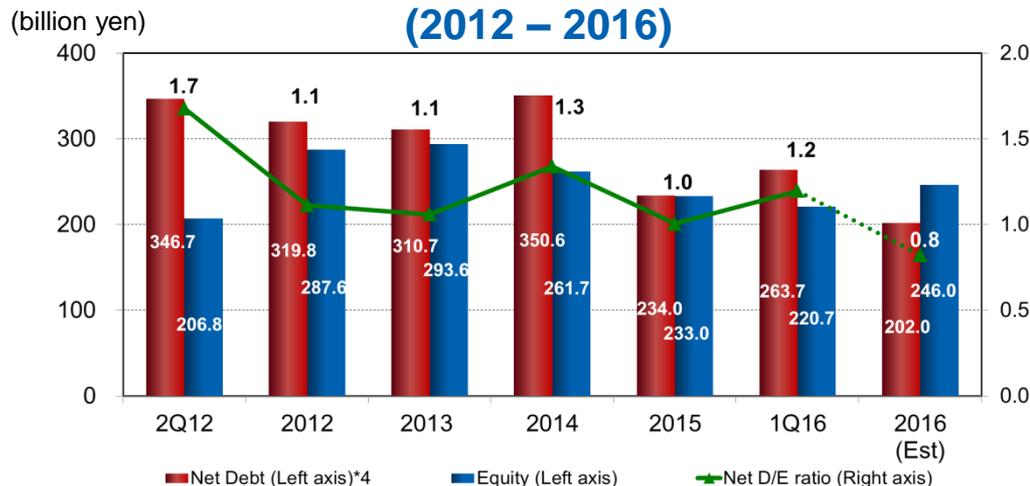
□ Net D/E ratio to improve from 1.2 at 1Q16 end to 0.8 toward year end

- Healthy operating cash flow
- Absence of timing effects
- Continued focus on working capital

## 1Q16 Cash flow (billion yen)

Net income before taxes*1	21.3
Depreciation*2 / (Capex)	3.0
Working capital changes / Other	16.7
<b>Adjusted Free Cash Flow</b>	<b>41.0</b>
Timing of excise taxes payment	-62.7
<b>Free Cash Flow*3</b>	<b>-21.7</b>

## Period end Net Debt/Equity (2012 – 2016)



- \*1 Excluding inventory effects
- \*2 Including 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

# Sensitivities for 2016 Earnings Forecast

## Base assumptions for the earnings forecast

Key Factors	Unit	Base
Dubai FOB	US\$/Bbl	40
Exchange Rate	Yen/US\$	110

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*1
Dubai FOB	US\$/Bbl	10	27*1
Exchange Rate (Yen appreciation)	Yen/US\$	10	-8*1
Refining margin	Yen/L	1	35*2

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

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

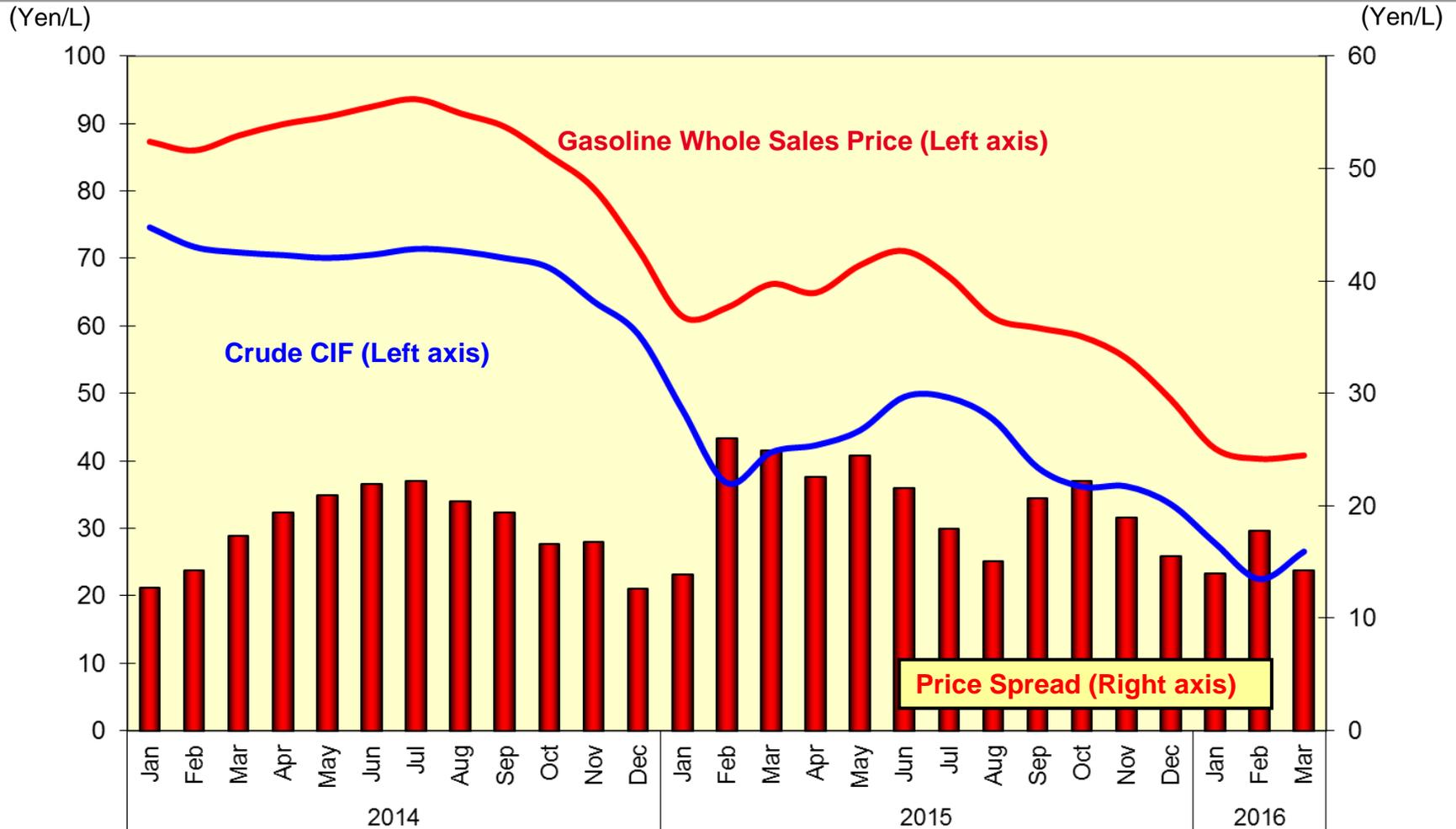
# Sales Volume

## □ Sales volume consistent with net sales

Product	1Q15	1Q16	Inc./Dec.	Inc./Dec.
<b>Oil products (KKL)</b>				<b>Industry</b>
Gasoline	2,466	<b>2,595</b>	5.2%	0.1%
Kerosene	959	<b>939</b>	-2.1%	0.9%
Diesel Fuel	910	<b>956</b>	5.0%	-0.6%
Fuel Oil A	340	<b>419</b>	23.2%	1.0%
Fuel Oil C	605	<b>610</b>	0.7%	-23.6%
LPG/Jet/Other	1,174	<b>932</b>	-20.6%	
<b>Domestic sales total*</b>	<b>6,454</b>	<b>6,450</b>	<b>-0.1%</b>	
<b>Export</b>	<b>1,795</b>	<b>1,369</b>	<b>-23.7%</b>	
<b>Oil products</b>	<b>8,250</b>	<b>7,820</b>	<b>-5.2%</b>	
<b>Chemical Products (Kton)</b>				
Olefins and other	402	<b>388</b>	-3.5%	
Aromatics	215	<b>243</b>	13.1%	
Specialties	55	<b>68</b>	22.7%	
<b>Chemical products</b>	<b>673</b>	<b>699</b>	<b>3.9%</b>	<b>Industry 1Q16</b>
<b>Topper Utilization</b>	<b>83%</b>	<b>82%</b>		<b>88%</b>

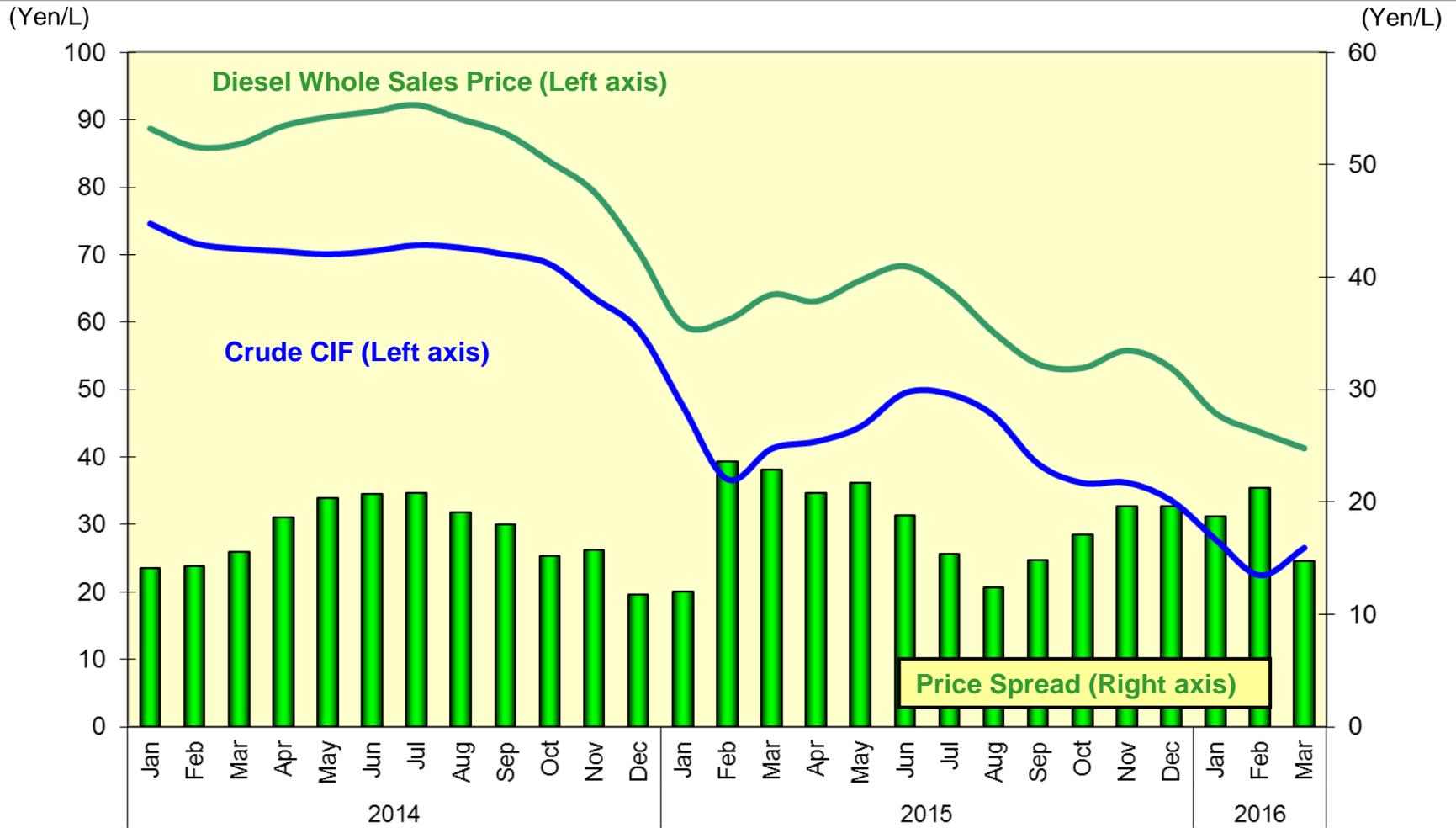
\* Bonded sales volume included in domestic sales

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



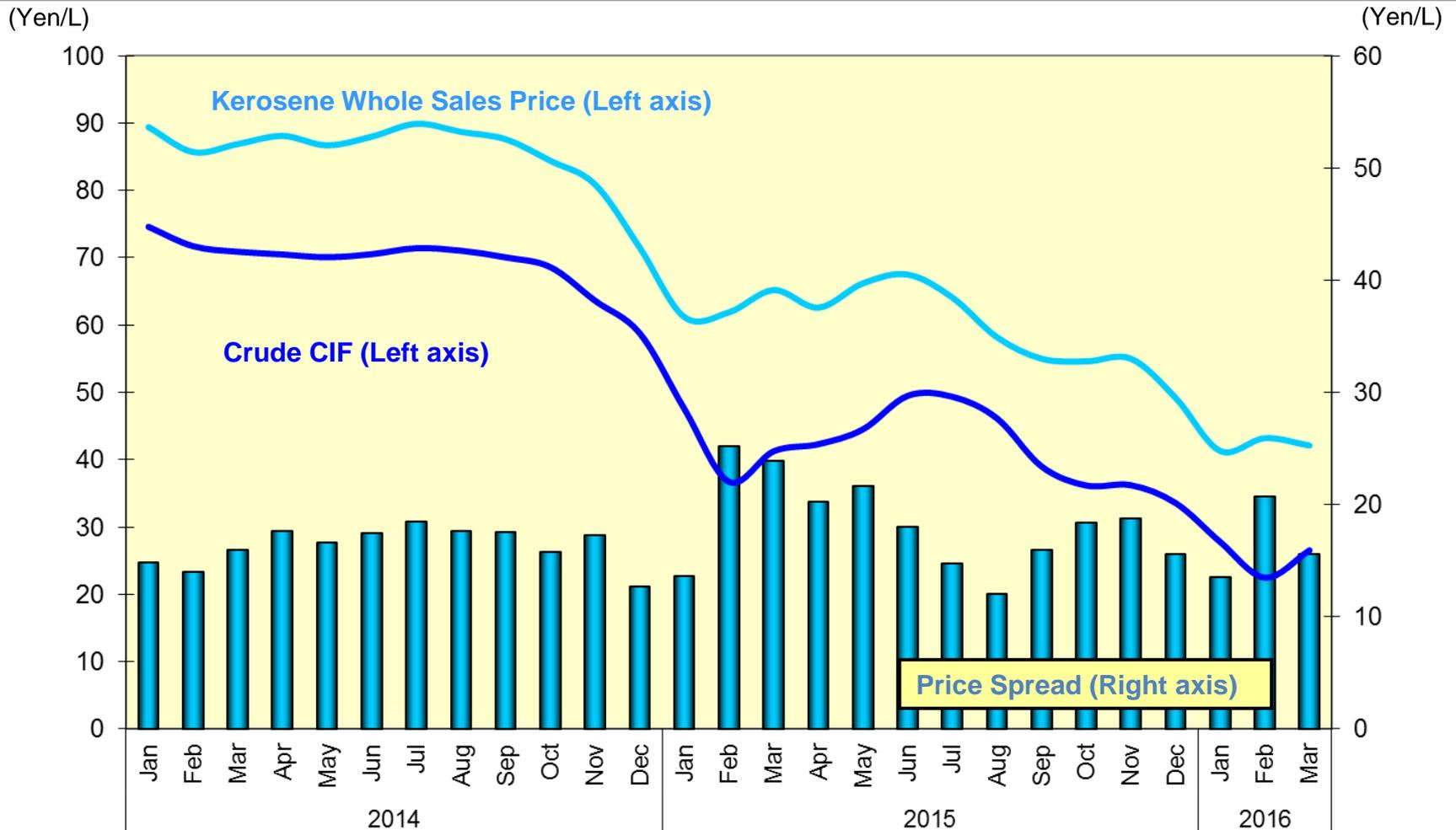
Source: PAJ and The Oil Information Center

# 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 (2014 – 1Q16)

2016

(Unit: billion yen)

Breakdown of Operating Income	1Q16	2Q16	3Q16	4Q16	FY2016	1H16	3Q16YTD
Oil segment (Substantial)	16.5						
Chemical segment (Substantial)	9.5						
Inventory effects	-28.3						
Goodwill amortization	-4.4						
<b>Total</b>	<b>-6.6</b>						

2015

Breakdown of Operating Income	1Q15	2Q15	3Q15	4Q15	FY2015	1H15	3Q15YTD
Oil segment (Substantial)	30.8	23.6	6.7	18.8	79.8	54.4	61.1
Chemical segment (Substantial)	4.3	12.9	5.1	4.4	26.7	17.2	22.3
Inventory effects	-45.0	22.8	-38.0	-26.9	-87.1	-22.1	-60.1
Goodwill amortization	-4.4	-4.4	-4.4	-4.4	-17.5	-8.7	-13.1
<b>Total</b>	<b>-14.2</b>	<b>54.9</b>	<b>-30.6</b>	<b>-8.2</b>	<b>2.0</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>