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Consolidated Financial Results for the First Quarter 2016 (Japanese GAAP basis)

May 13, 2016

Company name: TonenGeneral Sekiyu K.K. Listed on: Tokyo Stock Exchange
 Code number: 5012 URL: <http://www.tonengeneral.co.jp>
 Representative: Jun Mutoh Representative Director and President
 Contact person: Kosuke Kai Manager, Media Relations, Public Relations & CSR,
 EMG Marketing Godo Kaisha Tel: 03-6713-4400

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Scheduled date of start of dividends payment: -

Preparation of presentation material for quarterly results: Yes

Briefing for institutional investors: Yes

(Amounts shown in truncated millions of yen)

1. Consolidated financial results for the first quarter 2016 (January 1, 2016 through March 31, 2016)

(1) Operating results

(Percentage figures are the changes from the same period prior year)

	Net sales		Operating income		Ordinary income		Profit (loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1QYTD 2016	469,776	(29.2)	(6,604)	-	(8,179)	-	(4,912)	-
1QYTD 2015	663,838	(19.2)	(14,215)	-	(14,900)	-	(25,885)	-

(Note) Comprehensive income: (4,633) Million yen [- %] for 1QYTD 2016 (25,933) Million yen [-%] for 1QYTD 2015

	Earnings (loss) per share	Diluted earnings per share
	Yen	Yen
1QYTD 2016	(13.49)	-
1QYTD 2015	(71.06)	-

(2) Financial position

As of	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
Mar. 31, 2016	1,141,158	221,025	19.3
Dec. 31, 2015	1,209,364	234,106	19.3

(Reference) Net assets excluding non-controlling interests and subscription rights to shares:

220,723 Million yen as of March 31, 2016 232,976 Million yen as of December 31, 2015

2. Dividends

	Annual dividend				
	1st quarter end	2nd quarter end	3rd quarter end	Year-end	Full-year
	Yen	Yen	Yen	Yen	Yen
2015	-	19.00	-	19.00	38.00
2016	-				
2016 (Forecast)		19.00	-	19.00	38.00

(Note) Revision to the most recent dividend forecast: No

3. Projected consolidated operating results for 2016 (January 1, 2016 through December 31, 2016)

(Percentage figures are the changes from the same period prior year)

	Net sales		Operating income		Ordinary income		Profit (loss) attributable to owners of parent		Earnings (loss) per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
2QYTD2016	1,100,000	(20.5)	22,000	(46.0)	22,000	(45.2)	17,000	(26.9)	46.67
Full year	2,300,000	(12.5)	48,000	-	47,000	-	31,000	-	85.11

(Note) Revision to the most recent consolidated earnings forecast: No

*** Notes**

(1) Change in major subsidiaries in the current quarter year-to-date (change in designated subsidiaries resulting in a change in the scope of consolidation): No

(2) Adoption of special accounting method in preparing quarterly consolidated financial statements: No

(3) Change in accounting policy, change in accounting estimates and restatements

- a. Change in accounting policy with accounting standards revisions : Yes
- b. Change in accounting policy other than above : No
- c. Change in accounting estimates : No
- d. Restatements : No

(4) Number of shares issued (Common Stock)

a. Number of shares issued at the end of period (includes treasury shares)					
1Q2016	366,000,000	shares	Full year 2015	565,182,000	shares
b. Number of treasury shares at the end of period					
1Q2016	1,758,078	shares	Full year 2015	200,936,131	shares
c. Average number of shares during the period					
1QYTD2016	364,242,971	shares	1Q YTD 2015	364,293,458	shares

• **Review status of Quarterly Securities Report (*Shihanki-Houkokusho*) for the first quarter 2016**

This report is not required to be included and is not included in the scope of external audit quarterly review conducted pursuant to the Financial Instruments and Exchange Act of Japan. However, PricewaterhouseCoopers Aarata has separately completed their quarterly review of the quarterly consolidated financial statements included in “Financial information,” a part of the Quarterly Securities Report for the First Quarter 2016. The auditor expressed the conclusion on May 13, 2016 that “nothing has come to our attention that causes us to believe that the quarterly consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the TonenGeneral Sekiyu K.K. (the “Company”) and its consolidated subsidiaries as of March 31, 2016, the results of their operations and their cash flows for the three-month period then ended in conformity with accounting principles for quarterly consolidated financial statements generally accepted in Japan.”

• **Explanatory note on the use of projections / other notes**

This filing contains forward-looking statements based on projections and estimates that involve many variables. The Company 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.

For further information regarding the projections above, please refer to (Attachments) “1. Discussion of quarterly consolidated financial results (3) Discussion of projected consolidated operating results” on page 3.

(Attachments)

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1. Discussion of quarterly consolidated financial results

(1) Discussion of consolidated operating results

Consolidated net sales for the first quarter year-to-date period amounted to 469.8 billion yen, a decrease of 194.1 billion yen or 29.2 % versus the same period of the previous year, primarily due to lower product prices in response to the lower crude prices as well as lower sales volume.

Consolidated operating income was a loss of 6.6 billion yen, compared to a loss of 14.2 billion yen for the same period of the previous year because a decrease in inventory valuation losses and favorable chemical product margins exceeded negative factors such as lower oil product margins.

Consolidated ordinary income, which incorporates non-operating items including equity in losses of affiliates, foreign exchange losses and interest expenses, was a loss of 8.2 billion yen, compared to a loss of 14.9 billion yen for the same period of the previous year.

Profit attributable to owners of parent which incorporates extraordinary items and income taxes was a loss of 4.9 billion yen, compared to a loss of 25.9 billion yen for the same period of the previous year. Income taxes reflect adjustments in line with revisions to the statutory effective tax rate as further described in the section titled "Additional information".

Segment results based on operating income less goodwill amortization are shown as follows:

a. Oil segment

Oil segment income for the first quarter year-to-date period was a loss of 10.5 billion yen, compared to a loss of 11.0 billion yen for the same period of the previous year. Oil segment income excluding inventory valuation losses of 27.0 billion yen versus losses of 41.8 billion yen in the same period of the previous year was 16.5 billion yen, compared to 30.8 billion yen for the same period of the previous year, reflecting the current oil product margin environment.

Oil segment income (loss) compared with the same period of the previous year

	(Unit: Billion yen)		
	1Q YTD 2015	1Q YTD 2016	Difference
Segment income (loss) as reported	(11.0)	(10.5)	0.5
Inventory effects (losses)	(41.8)	(27.0)	14.8
Segment income (loss) excluding above inventory effects	30.8	16.5	(14.2)

b. Chemical segment

Chemical segment income for the first quarter year-to-date period was 8.2 billion yen, compared to 1.1 billion yen for the same period of the previous year. Chemical segment income excluding inventory valuation losses of 1.3 billion yen versus losses of 3.2 billion yen in the same period of the previous year was 9.5 billion yen, compared to 4.3 billion yen for the same period of the previous year, largely reflecting favorable olefins margins and aromatics margins recovery.

Chemical segment income (loss) compared with the same period of the previous year

	(Unit: Billion yen)		
	1Q YTD 2015	1Q YTD 2016	Difference
Segment income (loss) as reported	1.1	8.2	7.1
Inventory effects (losses)	(3.2)	(1.3)	1.9
Segment income (loss) excluding above inventory effects	4.3	9.5	5.2

(2) Discussion of consolidated financial condition

a. Total assets, liabilities and net assets

Total assets as of March 31, 2016 were 1,141.2 billion yen, a 68.2 billion yen decrease from December 31, 2015, mainly due to decreases in notes and accounts receivable - trade and cash and deposits.

Total liabilities as of March 31, 2016 amounted to 920.1 billion yen, a 55.1 billion yen decrease from December 31, 2015, attributable mainly to decreases in gasoline taxes payable. Total net assets as of March 31, 2016 amounted to 221.0 billion yen, a 13.1 billion yen decrease from December 31, 2015, reflecting a decrease in retained earnings due mainly to cash dividends and loss attributable to owners of parent.

Based on a resolution by the Board of Directors of the Company, 199,182,000 treasury shares were canceled on February 29, 2016. This cancellation decreased retained earnings and treasury shares by 141.0 billion yen each.

b. Cash flows

At the end of the March 2016, the outstanding balance of cash and cash equivalents was 76.2 billion yen, a decrease of 24.0 billion yen versus December 31, 2015. Key factors influencing cash flows are summarized below.

In the first quarter year-to-date 2016, cash flows from operating activities were negative 16.3 billion yen versus negative 13.0 billion yen in the same period of the previous year. This is mainly due to the fact that negative factors such as a decrease in payables largely reflecting payment of 4 months equivalent of gasoline tax during the 3 month period outweighed positive factors such as a decrease in trade account receivables.

Cash flows from investing activities were negative 5.3 billion yen versus negative 5.7 billion yen in the same period of the previous year. This is mainly due to capital expenditures.

Cash flows from financing activities were negative 1.8 billion yen versus positive 11.0 billion yen in same period of the previous year. This is mainly due to cash dividends paid.

(3) Discussion of projected consolidated operation results

There is no change to the consolidated earnings forecast for the second quarter year-to-date period and full year 2016 that was announced in Consolidated Financial Results for 2015 issued on February 12, 2016.

2. Information relating to Notes in summary

(1) Summary of change in major subsidiaries

Not applicable.

(2) Changes in accounting policy, change in accounting estimates and restatements

- Application of Accounting Standard for Business Combinations, etc.

The Company has adopted the “Accounting Standard for Business Combinations” (The Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) and so forth effective from the first quarter 2016 period. Changes in ownership interests in subsidiaries remaining under the control of the Company are accounted to capital surplus and acquisition related costs are expensed in the incurred year’s consolidated financial statements. For a business combination carried out on and after the beginning of the first quarter 2016 period, revisions for its purchase price allocation as a result of finalizing provisional accounting treatment is reflected in the quarterly financial statements for the quarter when the business combination is created. In addition, changes in presentation for net income and so on, and presentation from minority interests to non-controlling interests are implemented. In order to reflect these changes in presentation, reclassification has been made for the quarterly consolidated financial statements and the consolidated financial statements in the first quarter year-to-date 2015 period and the fiscal year 2015.

Application of Accounting Standard for Business Combinations, etc. have been adopted from the beginning of the first quarter 2016 period in accordance with transitional measures provided in Paragraph 58-2 (4) of the Accounting Standards for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures.

There are no impacts on the quarterly financial statements.

(3) Number of shares issued

Based on a February 12, 2016 resolution by the Board of Directors of the Company, 199,182,000 treasury shares were canceled on February 29, 2016. As a result, the number of shares issued is 366,000,000 shares at the end of March, 2016.

(4) Business and other risks

There were no material changes to the business and other risks which were already reported in the year-end report for 2015.

(5) Issues to be addressed

There were no material changes to the business issues to be addressed by the Company Group (the Company and the eight subsidiaries) during the first quarter year-to-date period.

3. Quarterly consolidated financial statements**(1) Quarterly consolidated balance sheet**

(Unit: Million yen)

	2015 (December 31, 2015)	1Q 2016 (March 31, 2016)
Assets		
Current assets		
Cash and deposits	100,161	76,150
Notes and accounts receivable - trade	172,650	141,042
Merchandise and finished goods	64,274	54,948
Semi-finished goods	35,332	31,911
Raw materials	83,692	88,128
Supplies	10,003	9,509
Income taxes receivable	4,100	8,452
Deferred tax assets	1,733	2,612
Other	24,682	18,535
Allowance for doubtful accounts	(282)	(282)
Total current assets	496,348	431,008
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	36,247	35,527
Land	174,562	174,417
Other, net	96,918	99,106
Total property, plant and equipment	307,728	309,051
Intangible assets		
Goodwill	288,865	284,502
Other	21,503	21,225
Total intangible assets	310,368	305,727
Investments and other assets		
Investment securities	33,922	31,528
Deferred tax assets	45,391	47,554
Other	15,677	16,362
Allowance for doubtful accounts	(74)	(74)
Total investments and other assets	94,918	95,371
Total non-current assets	713,015	710,150
Total assets	1,209,364	1,141,158

(Unit: Million yen)

	2015 (December 31, 2015)	1Q 2016 (March 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	129,769	153,788
Gasoline taxes payable	244,907	178,659
Short-term loans payable	118,180	119,043
Income taxes payable	1,761	1,128
Provision	1,743	4,470
Other	100,287	79,813
Total current liabilities	596,649	536,903
Non-current liabilities		
Bonds payable	85,000	85,000
Long-term loans payable	131,027	135,824
Deferred tax liabilities	319	240
Net defined benefit liability	132,993	132,259
Provision for repairs	23,634	24,199
Other	5,633	5,705
Total non-current liabilities	378,609	383,229
Total liabilities	975,258	920,133
Net assets		
Shareholders' equity		
Capital stock	35,123	35,123
Capital surplus	48,473	48,193
Retained earnings	309,049	156,183
Treasury shares	(142,278)	(1,243)
Total shareholders' equity	250,367	238,256
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,054	621
Revaluation reserve for land	(32)	(32)
Remeasurements of defined benefit plans	(18,412)	(18,121)
Total accumulated other comprehensive income	(17,390)	(17,532)
Subscription rights to shares	170	170
Non-controlling interests	959	131
Total net assets	234,106	221,025
Total liabilities and net assets	1,209,364	1,141,158

(2) Quarterly consolidated statement of income and comprehensive income
a. Quarterly consolidated statement of income
First quarter YTD period

(Unit: Million yen)

	1Q YTD 2015 (January 1, 2015 through March 31, 2015)	1Q YTD 2016 (January 1, 2016 through March 31, 2016)
Net sales	663,838	469,776
Cost of sales	652,955	451,234
Gross profit	10,883	18,541
Selling, general and administrative expenses	25,099	25,146
Operating loss	(14,215)	(6,604)
Non-operating income		
Interest income	16	66
Share of profit of entities accounted for using equity method	310	—
Compensation income	52	48
Other	285	97
Total non-operating income	664	212
Non-operating expenses		
Interest expenses	567	572
Foreign exchange losses	649	516
Share of loss of entities accounted for using equity method	-	607
Other	132	91
Total non-operating expenses	1,349	1,788
Ordinary loss	(14,900)	(8,179)
Extraordinary income		
Gain on sales of non-current assets	94	1,186
Compensation income for expropriation	-	179
Total extraordinary income	94	1,365
Extraordinary losses		
Loss on sales and retirement of non-current assets	389	119
Impairment loss	15	75
Total extraordinary losses	405	194
Loss before income taxes	(15,211)	(7,008)
Income taxes	10,758	(2,523)
Loss	(25,970)	(4,485)
Profit (Loss) attributable to non-controlling interests	(84)	427
Loss attributable to owners of parent	(25,885)	(4,912)

b. Quarterly consolidated statement of comprehensive income
First quarter YTD period

(Unit: Million yen)

	1Q YTD 2015 (January 1, 2015 through March 31, 2015)	1Q YTD 2016 (January 1, 2016 through March 31, 2016)
Loss before non-controlling interests	(25,970)	(4,485)
Other comprehensive income		
Valuation difference on available-for-sale securities	206	(440)
Remeasurements of defined benefit plans, net of tax	(168)	291
Total other comprehensive income	37	(148)
Comprehensive income	(25,933)	(4,633)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(25,848)	(5,054)
Comprehensive income attributable to non-controlling interests	(84)	420

(3) Quarterly consolidated statement of cash flows

(Unit: Million yen)

	1Q YTD 2015 (January 1, 2015 through March 31, 2015)	1Q YTD 2016 (January 1, 2016 through March 31, 2016)
Cash flows from operating activities		
Loss before income taxes	(15,211)	(7,008)
Depreciation	5,369	5,554
Amortization of goodwill	4,362	4,362
Share of (profit) loss of entities accounted for using equity method	(310)	607
Impairment loss	15	75
Increase (decrease) in net defined benefit liability	(1,347)	(734)
Increase (decrease) in provision for repairs	1,331	565
Interest and dividend income	(16)	(66)
Interest expenses	567	572
Foreign exchange losses (gains)	12	556
Loss (gain) on sales and retirement of non-current assets	295	(1,066)
Compensation income for expropriation	-	(179)
Decrease (increase) in notes and accounts receivable - trade	47,296	31,608
Decrease (increase) in inventories	56,930	8,804
Increase (decrease) in notes and accounts payable - trade	14,729	24,019
Decrease (increase) in accounts receivable - other	346	4,862
Increase (decrease) in accounts payable - other	(102,242)	(79,511)
Other, net	(1,536)	(4,171)
Subtotal	10,593	(11,150)
Interest and dividend income received	853	858
Interest expenses paid	(716)	(678)
Income taxes refund	-	340
Income taxes paid	(23,683)	(5,693)
Net cash provided by (used in) operating activities	(12,953)	(16,322)
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,336)	(6,287)
Proceeds from sales of property, plant and equipment	309	1,302
Purchase of intangible assets	(292)	(588)
Proceeds from compensation for expropriation	-	179
Other, net	621	62
Net cash provided by (used in) investing activities	(5,697)	(5,331)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	33,627	870
Repayments of long-term loans payable	(1,209)	(208)
Proceeds from long-term loans payable	-	5,000
Net increase (decrease) in commercial papers	(15,000)	-
Cash dividends paid	(6,346)	(6,425)
Repayment to non-controlling shareholders	-	(1,032)
Other, net	(22)	(3)
Net cash provided by (used in) financing activities	11,049	(1,800)
Effect of exchange rate change on cash and cash equivalents	(12)	(556)
Net increase (decrease) in cash and cash equivalents	(7,613)	(24,011)
Cash and cash equivalents at beginning of period	35,048	100,161
Cash and cash equivalents at end of period	27,435	76,150

(4) Additional information

- Amendment to amount of deferred tax assets and liabilities due to change in corporate income tax rate, etc.

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 13 of 2016) have been promulgated on March 31, 2016. With this amendment, the corporate income tax rates, etc. are to be reduced effective from the fiscal year beginning on and after April 1, 2016. In conjunction with this, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities is changed from the previous rate of 32.3%. The rate is 30.9% for temporary differences expected to be realized in the fiscal years beginning on January 1, 2017 and beginning on January 2018, and 30.6% for temporary differences expected to be realized in the fiscal years beginning on and after January 1, 2019.

As a result, deferred tax assets (after deducting deferred tax liabilities) decreased by 1,728 million yen, capital surplus decreased by 54 million yen, income taxes – deferred increased by 1,259 million yen, profit attributable to non-controlling interests increased by 2 million yen, valuation difference on available-for-sale securities increased by 28 million yen, remeasurements of defined benefit plans increased by 441 million yen and non-controlling interest increased by 1 million yen.

Moreover, the system of deduction for losses carried forward has been revised. The limit of deduction from taxable income applicable to losses carried forward is amount equivalent to 60% of the income before loss carried forward effective from the fiscal year beginning on January 1, 2017, 55% from the fiscal year beginning on January 1, 2018 and 50% effective from the fiscal years beginning on and after January 1, 2019. As a result, deferred tax assets (after deducting deferred tax liabilities) decreased by 479 million yen, capital surplus decreased by 17 million yen, and income taxes - deferred increased by 461 million yen.

(5) Notes on assumption of going concern

Not applicable.

(6) Notes on significant changes in the amount of shareholders' equity

Based on a February 12, 2016 resolution by the Board of Directors of the Company, 199,182,000 treasury shares were canceled on February 29, 2016. This cancellation decreased capital surplus by 6 million yen, retained earnings by 141,032 million yen and treasury shares by 141,038 million yen in the first quarter year-to-date 2016 period.

(7) Segment information**First quarter YTD 2015 period (January 1, 2015 through March 31, 2015)**

Net sales and segment income (loss) by reportable segments

(Unit: Million yen)

	Oil	Chemical	Total	Adjustment (Note) 1, 2	Quarterly consolidated statement of income amount
Net sales					
Sales to customers outside the Company group	597,597	66,241	663,838	-	663,838
Internal transactions	473,272	12,960	486,233	(486,233)	-
Total	1,070,870	79,201	1,150,072	(486,233)	663,838
Segment income (loss)	(10,985)	1,132	(9,853)	(4,362)	(14,215)

(Note) 1. Adjustment of (486,233) million yen represents an elimination of inter-segment transactions.

2. Goodwill amortization of (4,362) million yen is shown in the adjustment column as it is not allocated to each segment.

3. Total segment income (loss) plus "Adjustment" is the same as operating loss in the quarterly consolidated statement of income.

First quarter YTD 2016 period (January 1, 2016 through March 31, 2016)

1. Net sales and segment income (loss) by reportable segments

(Unit: Million yen)

	Oil	Chemical	Total	Adjustment (Note) 1, 2	Quarterly consolidated statement of income amount
Net sales					
Sales to customers outside the Company group	412,801	56,974	469,776	-	469,776
Internal transactions	313,080	8,791	321,871	(321,871)	-
Total	725,881	65,766	791,647	(321,871)	469,776
Segment income (loss)	(10,468)	8,227	(2,241)	(4,362)	(6,604)

(Note) 1. Adjustment of (321,871) million yen represents an elimination of inter-segment transactions.

2. Goodwill amortization of (4,362) million yen is shown in the adjustment column as it is not allocated to each segment.

3. Total segment income (loss) plus "Adjustment" is the same as operating loss in the quarterly consolidated statement of income.

(8) Significant subsequent events

Not applicable