

# TonenGeneral Sekiyu K.K.

## Business Strategy and 2009 Financial Results

February 15, 2010  
at TSE Arrows



**TonenGeneral**

- This material contains forward-looking statements based on projections and estimates that involve many variables. TonenGeneral 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 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'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 web site. While these English versions have been prepared in good faith, TonenGeneral does not accept responsibility for the accuracy of the translations, and reference should be made to the original Japanese language materials.

- Business Overview

K. Suzuki

- 2009 Business Results and  
2010 Financial Forecast

W. J. Bogaty

- Q & A

# Business Overview

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K. Suzuki

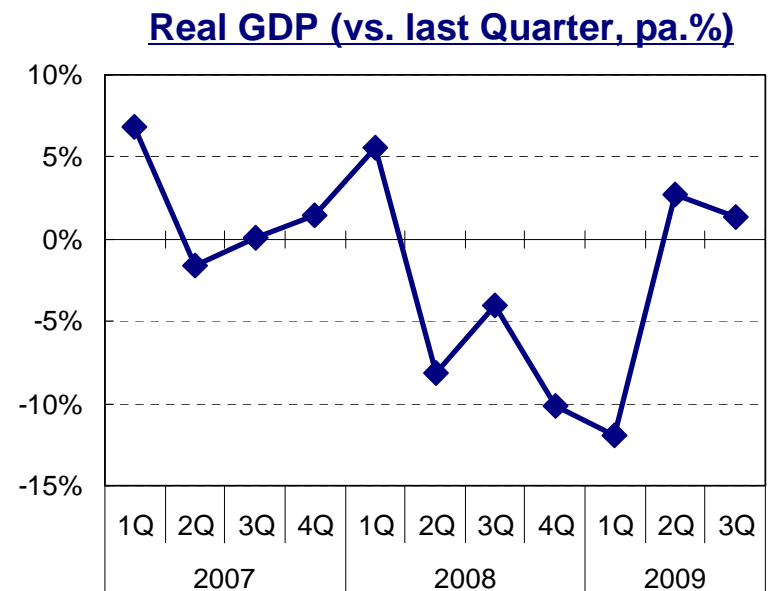
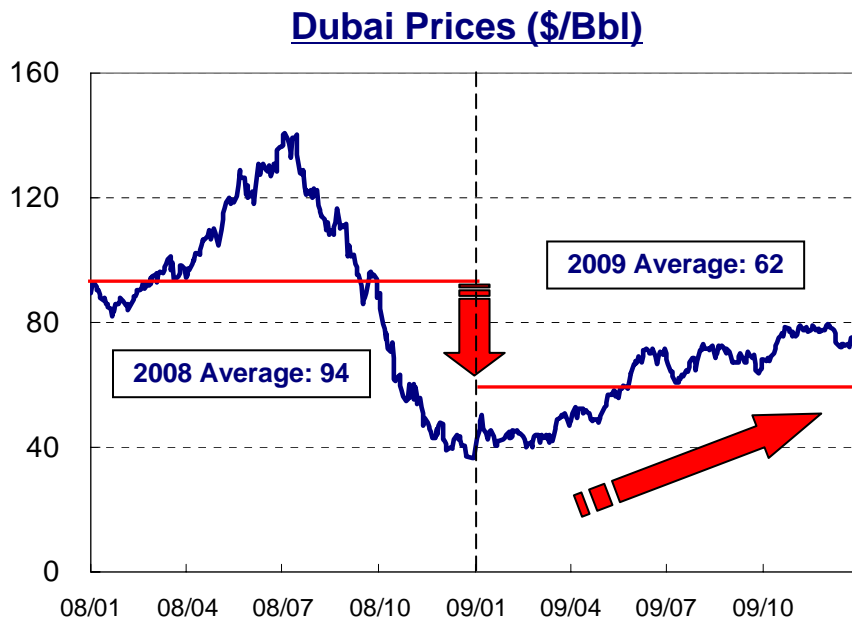
*Representative Director, President  
TonenGeneral Sekiyu K.K.*

## ■ Crude price movements

- » The average price per barrel for Dubai crude in 2009 decreased by around 32 dollars from 2008, when record highs were observed.
  - In yen terms, 2009 crude prices averaged 25 yen per liter (40%) less than 2008
  - Consolidated net sales fell significantly (35.5%) versus 2008
- » During 2009, however, crude prices again increased. They began in the 40 to 49 dollar range, and increased to the 75 to 79 dollar range at the year-end.
  - Our results adversely affected (negative 35 billion yen) by our prompt crude cost recognition method

## ■ Continuous slump in the Japanese economic environment

- » Real GDP showed signs of recovery, but private-sector capital investment, residential housing investment and consumer spending have continued to struggle.



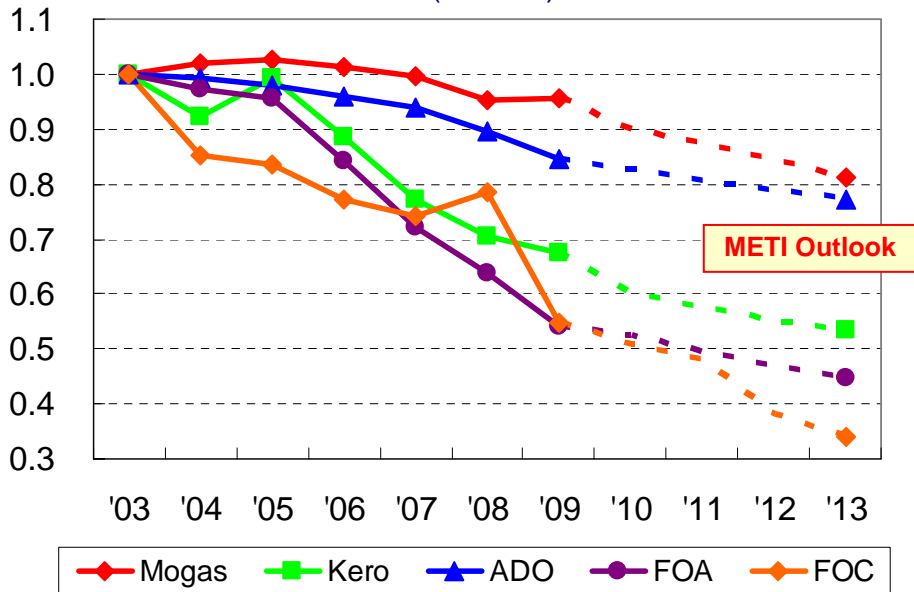
# Business Environment (2)



- **Accelerated pace of decline in domestic demand for petroleum fuel products**
  - » The sluggish economy, improvement of energy efficiency and energy shift to other energy sources
- **Decrease in crude runs and topper utilization**
  - » Deterioration in product export environment
  - » Surplus capacity issues in industry continue
- **Gradual recovery in product demand and market conditions in Chemical**
  - » Margin and volumes in Chemical segment, which significantly dropped in 4Q08, recovered moderately after 1Q '09.
  - » Relatively low margin and volumes throughout 2009 versus 2008

**Domestic Product Demand Index**

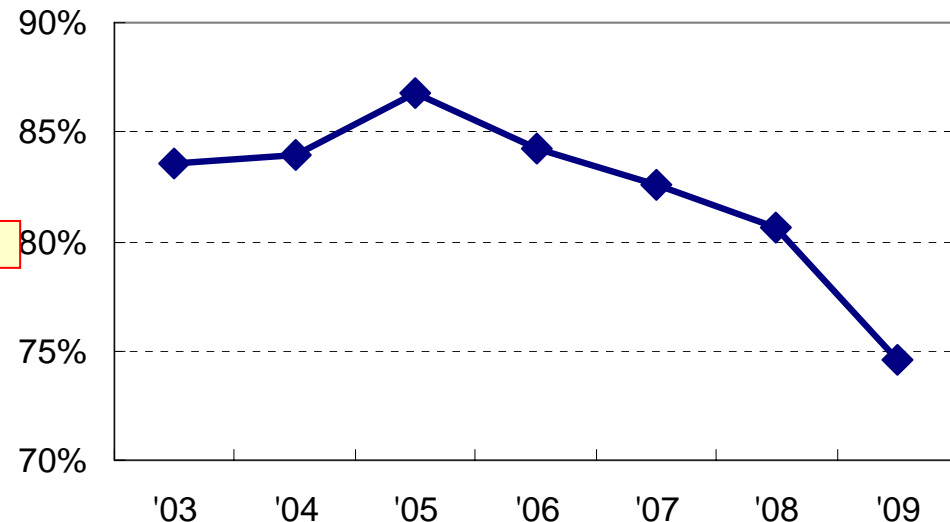
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Source: METI Statistics and 5-Year Demand Outlook

**Topper Utilization in Japan**

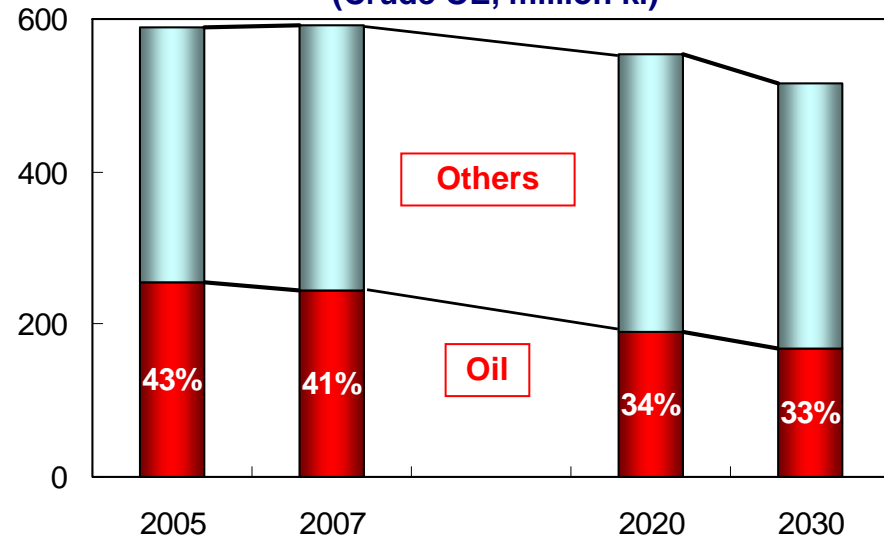
(2003 – 2009)



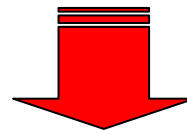
Source: PAJ

- **Operating environment in future forecast to become increasingly severe**
  - » Further decline in domestic petroleum demand
  - » Surplus capacity issue, a structural problem, not easily resolved
- **However, oil continues to be an important energy resource**
  - » “Long-term S&D Forecast” by METI
    - Japan's rate of dependence on oil as a primary energy sources is expected to remain high, about one-third in 2030

**Long-term Primary Energy Supply Outlook**  
(Crude OE, million kl)



Source: METI's Long-term S&D Forecast  
Political Initiative Case for 2020/2030



**< Concentration on our Core Businesses >**

**In this severe business environment,  
Steady, concerted self-help efforts are essential**

# 2009 Achievement – Oil Segment (1)



## Refining & Supply:

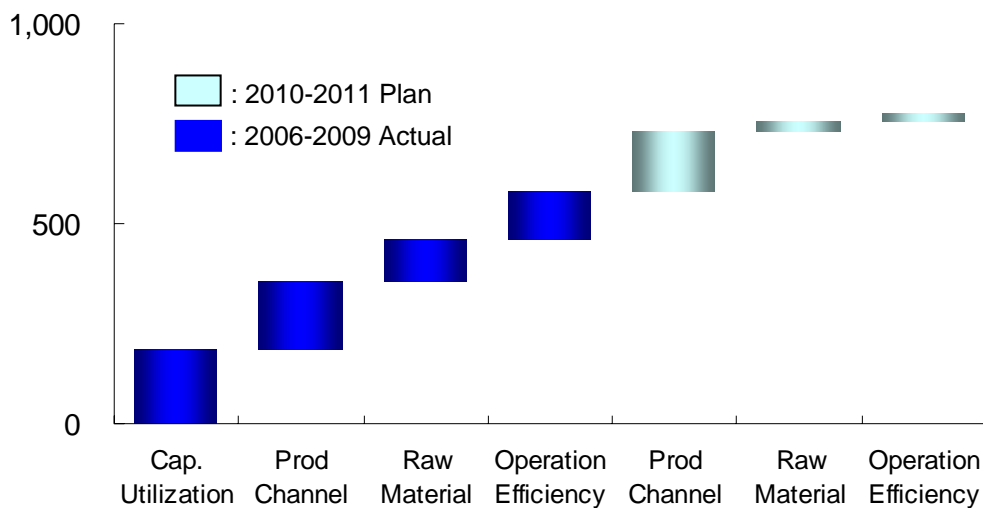
### ■ Taking full advantage of the ExxonMobil global network

- » Most effective feedstock procurement
- » Marketing channel optimization including exports
- » Sharing best practices among overseas refineries

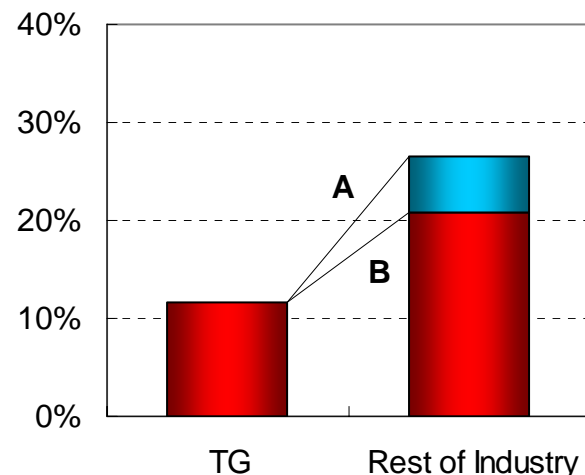
### ■ Pursuit of efficiency in refinery operations

- » Effective utilization of secondary units
- » Full use of integration synergies with refining and chemical businesses

**Self-help Efforts – Achievements & Plans**  
(Cumulative Amount from 2006, 100MYen)



**Estimated Surplus Topper Capacity**  
(Based on Cracking Capacity)



A: calculated based on topper capacity as of end 2009  
 B: Calculated planned topper capacity including announced capacity reduction plans

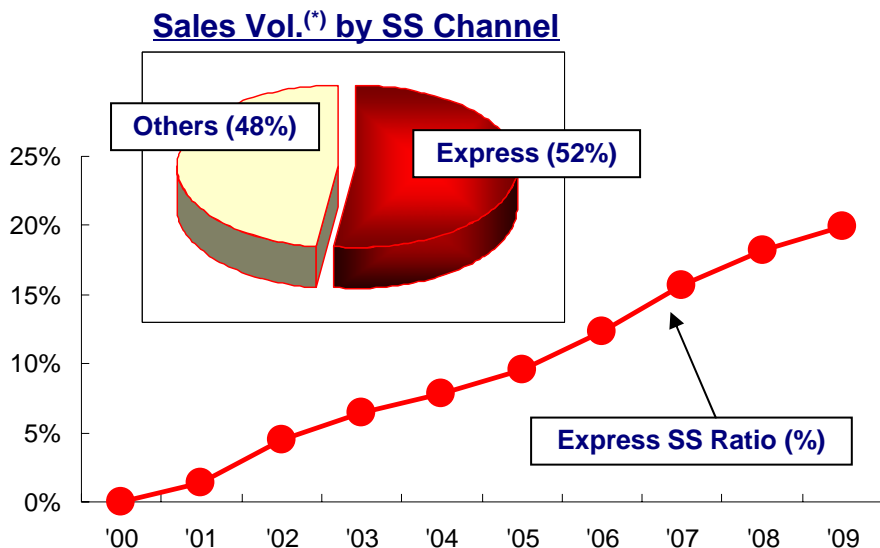
# 2009 Achievement – Oil Segment (2)



## Fuels Marketing:

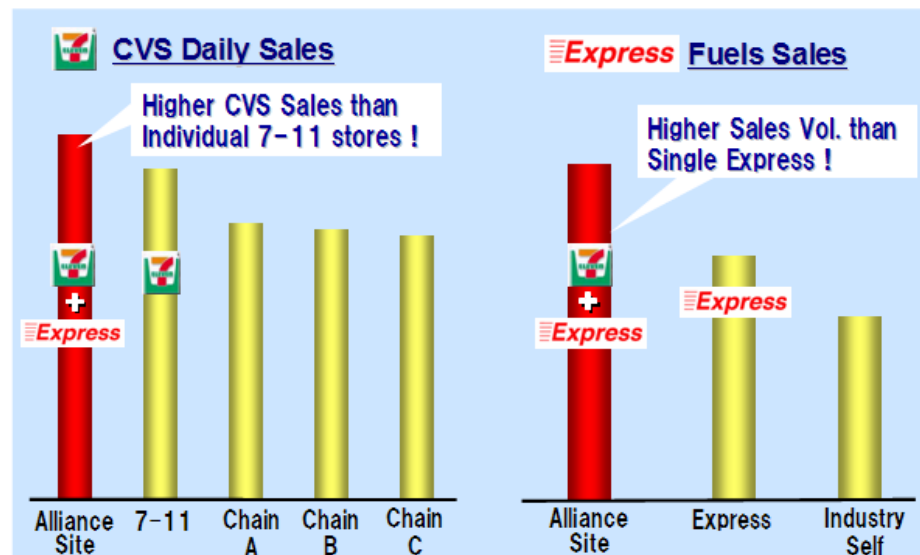
- Pursuit of efficiency of service station network through “Express” brand
  - » Around 20% of the ExxonMobil Japan group’s service stations were Express
  - » Over 50% of total retail gasoline and diesel were sold through Express
- Further strengthening of the “Express” brand
  - » Continuous offering of “Speedpass” and “Video Pump”
  - » Enhancing “Express Wash” and “Mobil-1 center”
  - » Expanding exclusive alliance with Seven-Eleven for Express across the country

**Express Share in EM Japan Total**  
(2009 Vol. % in Retail Sales / SS Number %)



\* Based on total retail gasoline and diesel sales in 2009

**Merit of Alliance Sites – Sales**



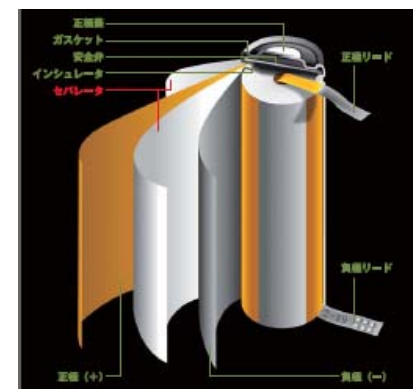
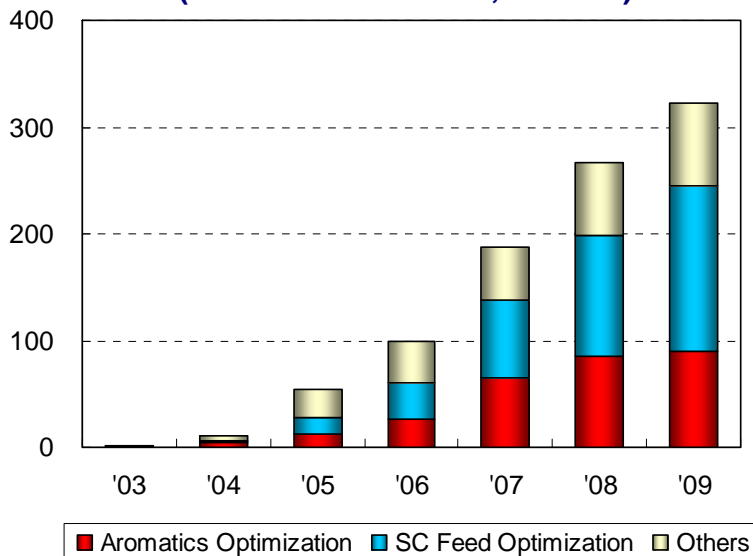


# 2009 Achievement – Chemical Segment



- **Further enhancement on cost competitiveness of the Basic Chemicals business**
  - » Expansion of integration synergies with refining and chemical businesses
    - Efficiency enhancement through raw material diversification
    - Unified organization
- **Enhancement of Specialty Chemicals**
  - » Focus on enhancement of Specialty Chemicals products, which are affected differently from the Basic Chemicals products in term by changes in market conditions.
  - » In particular, battery separator films (BSF) business in Korea started test operation through its new plants taking into account of increase in demand for new markets
- **Expansion of business opportunities through newly established JV with Toray**
  - » Pursuit of presence in the market through the combination of our BSF business experience and Toray's expertise in research and development

**Synergy Effects of Ref/Chem Integration**  
(Cumulative Amount, '06=100)



# Increase Shareholders' Value



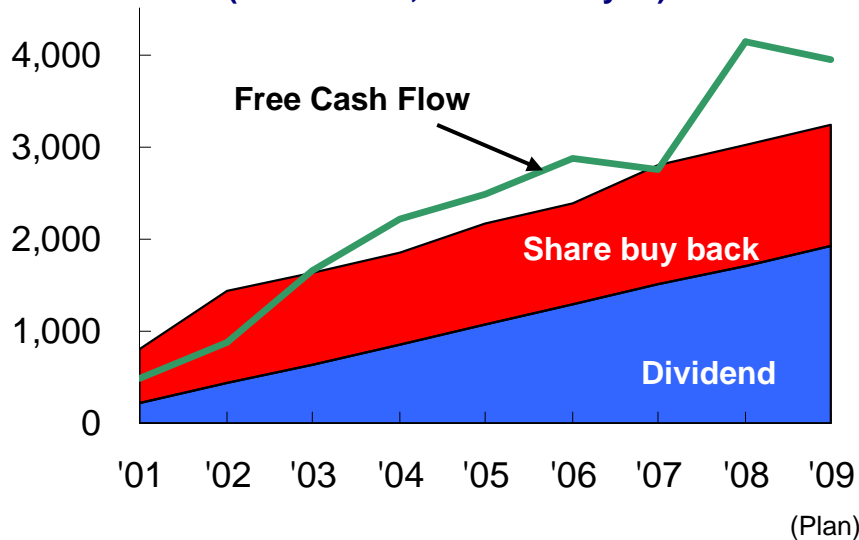
## ■ Our Principles

- » Focus on return of wealth to shareholders
- » Company's wealth that is not otherwise required in a way that meets our rigorous profitability standards should be returned to shareholders
- » Maintain stable dividend payment levels

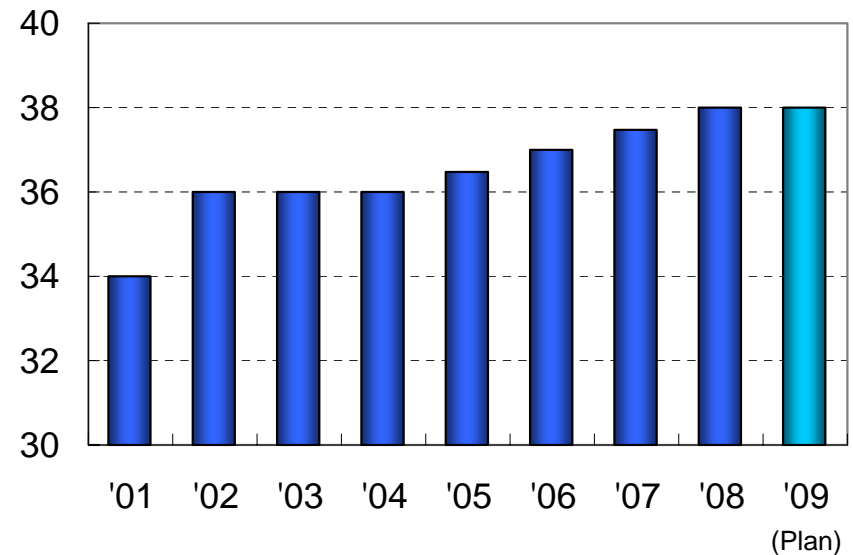
## ■ Dividend in 2009

- » Plan to pay a full-year dividend of 38 yen per share (same as 2008)

**Free Cash Flow and Distribution**  
(Cumulative, 100 million yen)



**Dividend History (yen per share)**



**Our basic policy on shareholder returns remains unchanged, even in the changing business environment**

# Challenges of Climate Change



## Measures being taken by ExxonMobil Group

### ■ ExxonMobil Group internal research

- » CCS Study / Develop lubricants to improve mileage / Gasification (coal/biomass) technology development, etc.

### ■ Joint research with third parties

- » Participation in research (GCEP) conducted by Stanford Univ.
- » ExxonMobil Algae Biofuels Development Program(\*)

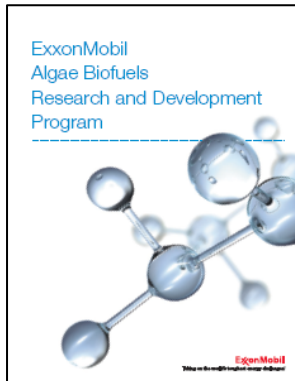
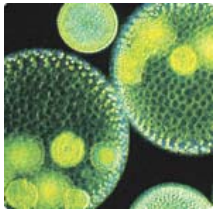
## TonenGeneral's own initiatives

### ■ Energy conservation, efficiency improvement

- » Front runner in unit energy consumption in refineries in both absolute level and improvement rate

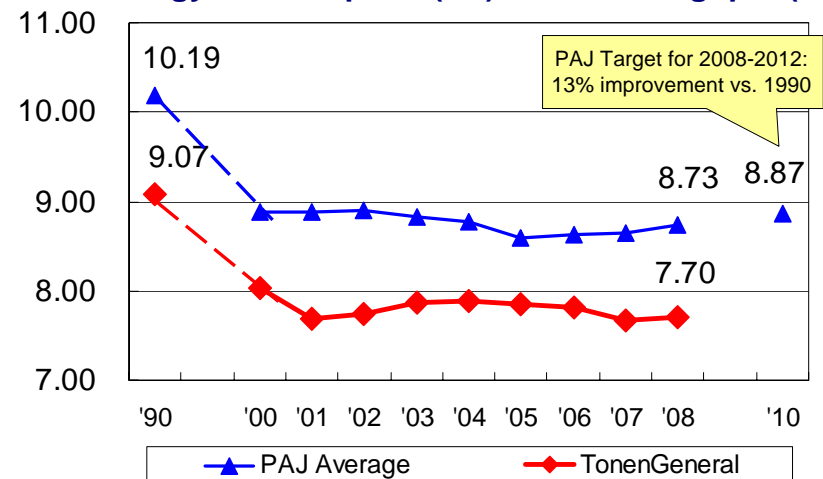
### (\*) ExxonMobil Algae Biofuels Research and Development Program

- » Produces bio-oils through photosynthesis
- » Compatible with existing transportation technologies and infrastructure
- » Anticipates investing more than \$600 million



### Unit Energy Consumption in Refineries

Energy Consumption (KL) / APS Throughput (KKL)



Source: PAJ

# 2009 Business Results and 2010 Financial Forecast

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W. J. Bogaty

*Representative Director, Managing Director  
TonenGeneral Sekiyu K.K.*

*Representative Director, President  
ExxonMobil Y.K.*

# Financial Highlights



- 2009 Operating income declined significantly vs. 2008
- After adjustment for inventory, lead lag effects and divestment related gain in 1Q08, 2009 adjusted operating income dropped by 291 oku yen vs. 2008
  - » Both oil and chemical earnings adversely affected by economic downturn: drop in demand and margin

(100M yen = oku yen)	<u>FY2008</u>	<u>FY2009</u>	<u>Inc./Dec.</u>
Net sales	32,724	<b>21,118</b>	-11,607
— Operating income	1,217	<b>-346</b>	-1,563
— Ordinary income	1,313	<b>-345</b>	-1,658
— Extraordinary gain/loss	24	<b>-16</b>	-40
— Net income	793	<b>-217</b>	-1,010
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— Reverse inventory effects	-141	<b>-74</b>	67
— Reverse lead lag effects	-745	<b>350</b>	1,095
— Reverse gain related to divestment	-110	-	110
→ <b>Adjusted operating income</b>	<b>222</b>	<b>-70</b>	<b>-291</b>
↓ Oil segment and others	82	<b>-108</b>	-190
↘ Chemical segment	139	<b>38</b>	-101

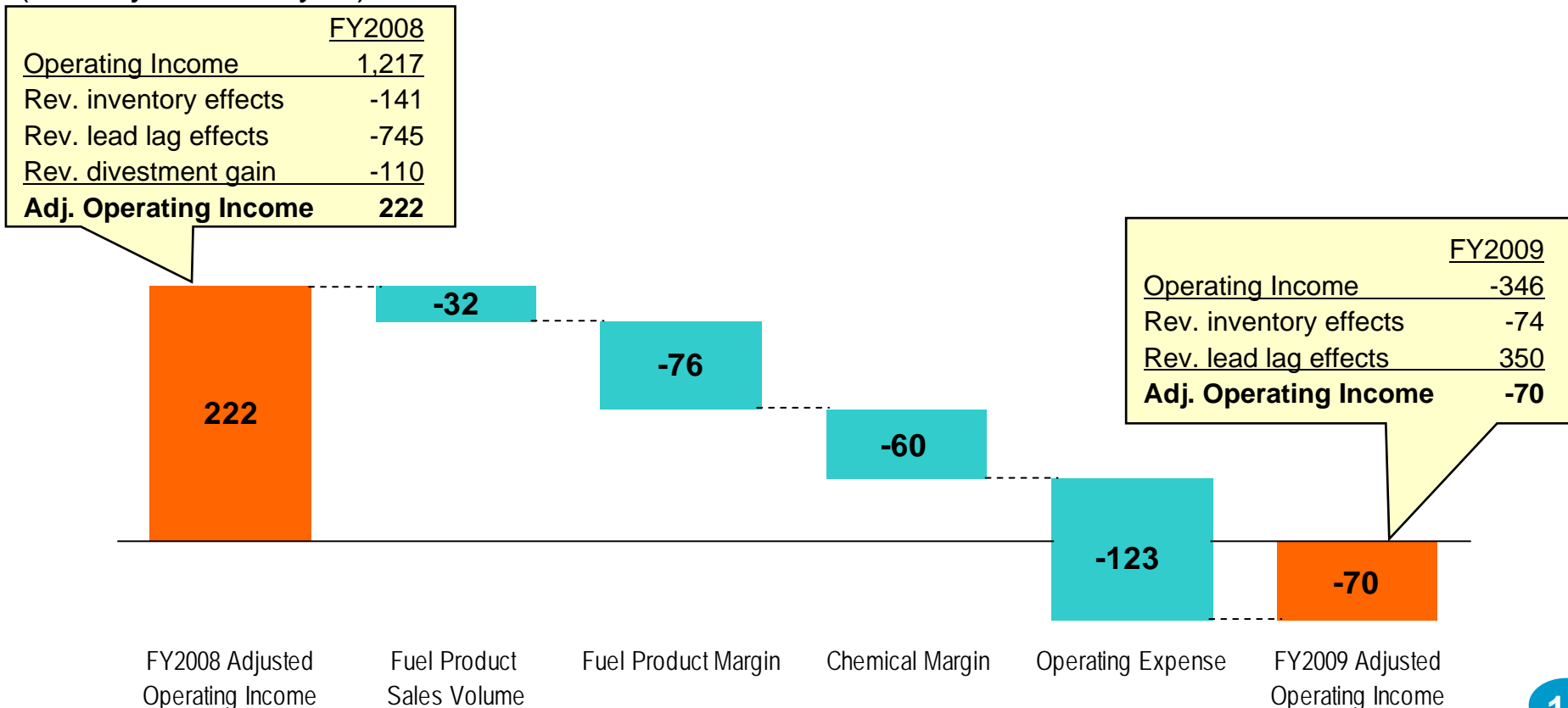
- Net sales decreased by 35% reflecting lower average crude prices than 2008
- No significant non-operating or extraordinary gain/loss in 2009, vs. 2008

# Factor Analysis of Operating Income (1)

## [FY2009 Results vs. FY2008 Results; Consolidated]

- Low margin and demand environment for both downstream and chemical reduced 2009 adjusted operating income, partly offset by our self-help efforts
- Higher expenses vs. 2008 mainly due to increased non-cash pension costs, but actual 2009 expenses well below our original projection

(100M yen = oku yen)

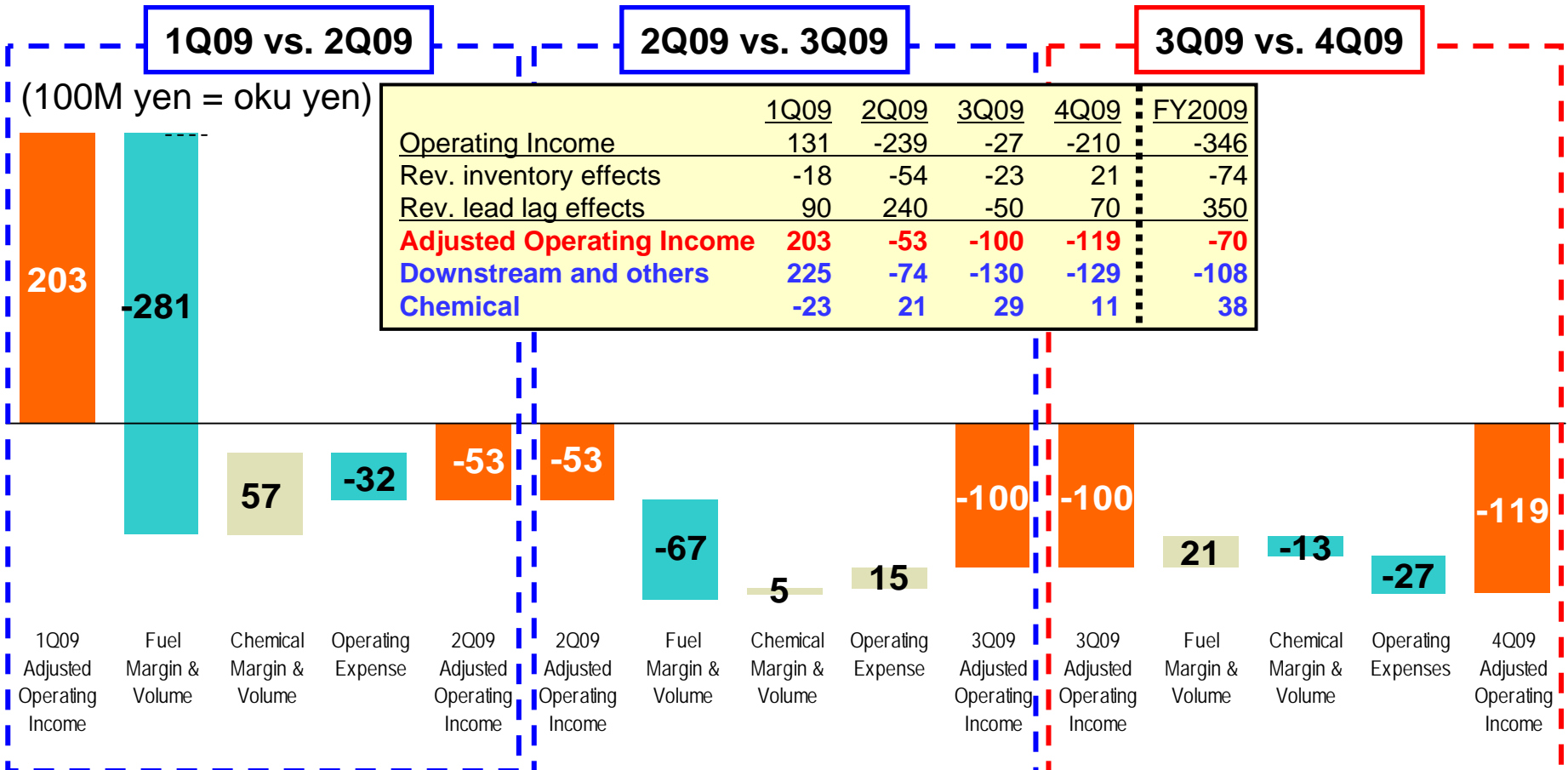


# Factor Analysis of Operating Income (2)



## [Quarter to Quarter 2009 Results; Consolidated]

- Downstream earnings began year with positive 1Q. Then dropped in throughout rest of 2009.
- Chemical margin and demand environment recovered somewhat over 2009 from difficult 4Q 2008 and 1Q 2009.





# Sales Volume/ Capacity Utilization

- Lower domestic distillate volumes in 2009 due to weak industry demand
- Sought to capitalize on incentives through export by utilizing our global network
  - » Middle Distillates including semi-products exports increased by 9% vs previous year
  - » Export profitability less attractive than in prior years, but still produced positive impact
- Lower olefins volume due to reduced domestic sales partly offset by increase in export volume

## Oil Products\*

(KKL)	FY2008	FY2009	Inc./Dec.	Industry Inc./Dec. ****	
Japan Inland Sales	Gasoline	10,085	<b>10,418</b>	+3.3%	+0.3%
	Kerosene	2,863	<b>2,694</b>	-5.9%	-4.1%
	Diesel fuel	3,029	<b>2,903</b>	-4.2%	-5.5%
	Fuel oil A	2,414	<b>2,001</b>	-17.1%	-15.1%
	Fuel oil C	1,704	<b>1,385</b>	-18.8%	-30.2%
	5 Major Fuels Total	20,096	<b>19,401</b>	-3.5%	-8.3%
	LPG and others	2,609	<b>2,322</b>	-11.0%	
	Sub Total	22,705	<b>21,723</b>	-4.3%	
	Exports**	5,211	<b>5,570</b>	+6.9%	-2%
	Others***	4,163	<b>3,398</b>	-18.4%	
G. Total	32,079	<b>30,691</b>	-4.3%		

## Chemical Products (Consolidated)

(Kton) Olefins and others (TCC)	1,771	<b>1,615</b>	-8.8%
Aromatics and others (TG)	820	<b>807</b>	-1.6%
Chemical Total	2,591	<b>2,422</b>	-6.5%

### Notes:

- \* Consolidated and excluding Barter
- \*\* Excluding bond sales
- \*\*\* Others include crude, product exchanges within ExxonMobil Japan Group, etc.
- \*\*\*\* Data Source; METI Statistics

<b>Topper Utilization</b>	<b>72%</b>	<b>74%</b>	<b>75%</b>
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# 2010 Consolidated Earnings Forecast



TonenGeneral

- 2010 Adjusted operating income is projected to be 120 Oku yen
- Assume no crude lead/lag or inventory related effects
- Approximately +200 oku yen of one time effects from BSF JV establishment is included in forecast 1H '10 extraordinary gain and net income

(100M yen=oku yen)	<u>2009</u>	<u>2010 fct.</u>	<u>1H'10 fct.</u>	<u>2H'10 fct.</u>
Net Sales	21,118	<b>24,000</b> <sup>(*)</sup>	12,000	12,000
Operating income	-346	<b>120</b>	70	50
Ordinary income	-345	<b>140</b>	70	70
Extraordinary gain/loss	-16	<b>190</b>	200	-10
Net income	-217	<b>290</b>	250	40
<hr/>				
Reverse inventory effects	-74	<b>0</b>	0	0
Reverse lead lag effects	350	<b>0</b>	0	0
<b>Adjusted operating income</b>	<b>-70</b>	<b>120</b>	<b>70</b>	<b>50</b>
Oil segment and others	-108	30	10	20
Chemical segment	38	90	60	30

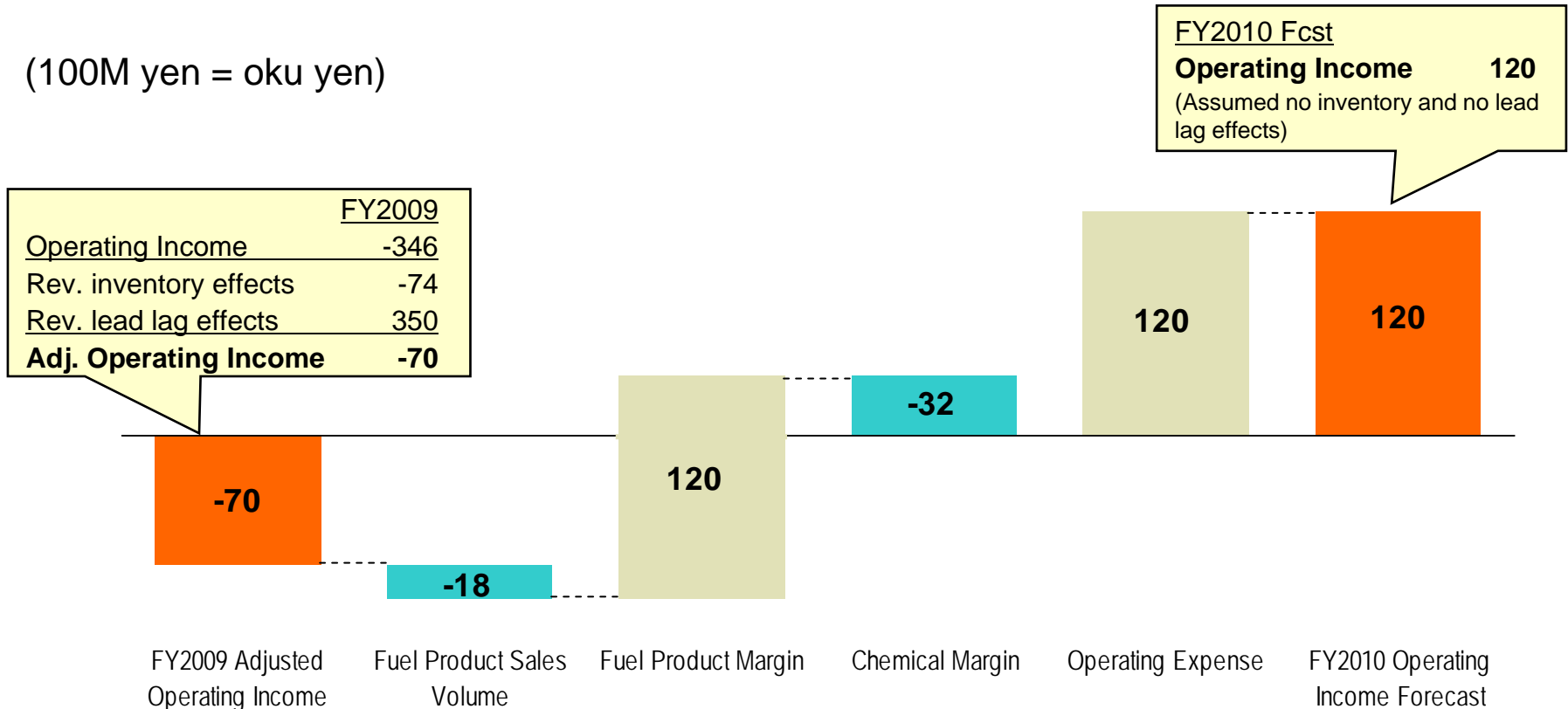
(\*) Calculated based on 75.4 \$/Bbl (Dubai), 89.6 ¥/\$ <December 2009 average>

# Factor Analysis of Operating Income

## [FY2010 Forecast vs. FY2009 Results; Consolidated]

- Decline in domestic sales partly offset by increase in export sales
- We assume slight improvement in oil segment compared with very thin margin environment in 2009: breakeven refining earnings
- BSF earnings shifted from operating income to equity (non-operating) category. Forecast increases in basic chemical margins.

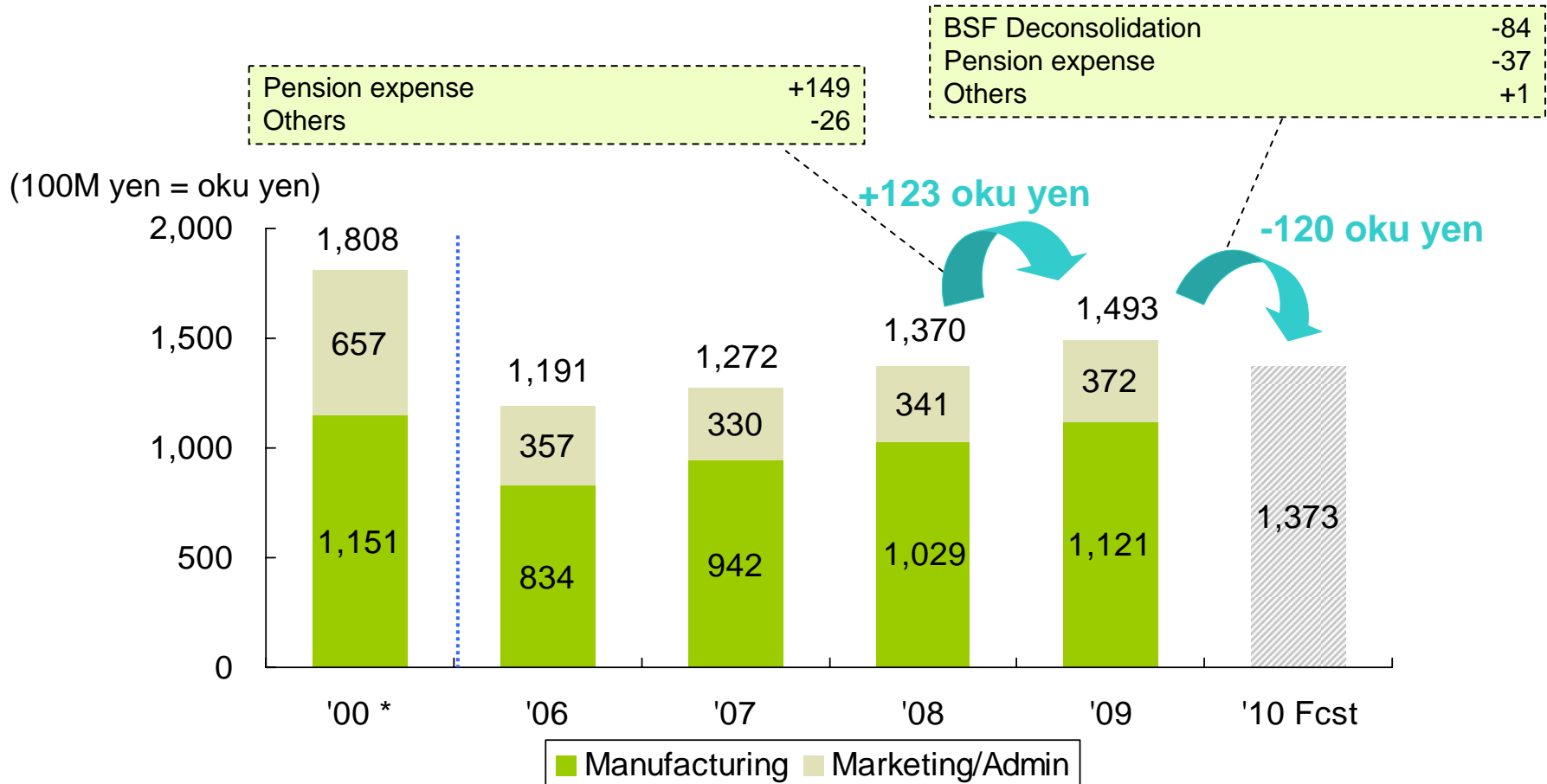
(100M yen = oku yen)





# Operating Expenses [Consolidated]

- 2009 operating expenses 123 oku yen higher than 2008, mainly due to higher non-cash pension costs and depreciation (2008 tax rule change), but 56 oku yen lower than our original forecast
- 2010 operating expenses projected to decrease by 120 oku yen mainly due to removal of BSF affiliates from consolidation, and lower pension expenses



\* Tonen+General (unaudited pro forma combined)

# Cash Flows, Debt/Equity [Consolidated]

(100M yen)

## Operating / Investing Activities

	2009
Net income before taxes	-361
Net capex/Depreciation/Asset Disposal	62
Inventory	134
TAR/TAP/Gas tax & other payables	312
Income tax payment	-414
Others	81

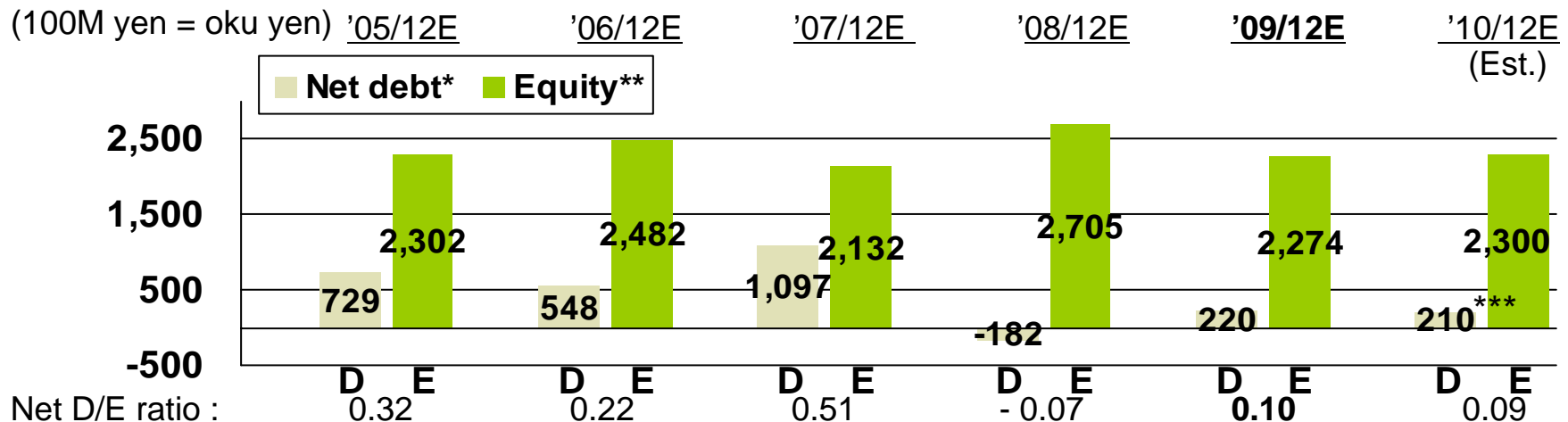
## Financing Activities

	2009
Change in debt	404
Dividend to shareholders	-215
Others	-2

## Net Cash Change

3

- Net debt increased at '09 year end vs. 2008: negative earnings and large income tax payment associated with FY08
- Distributed 215 Oku yen to shareholders through dividends
- Financial position remains healthy
- Forecast 38 Yen/share dividend (215 Oku yen) for FY2010



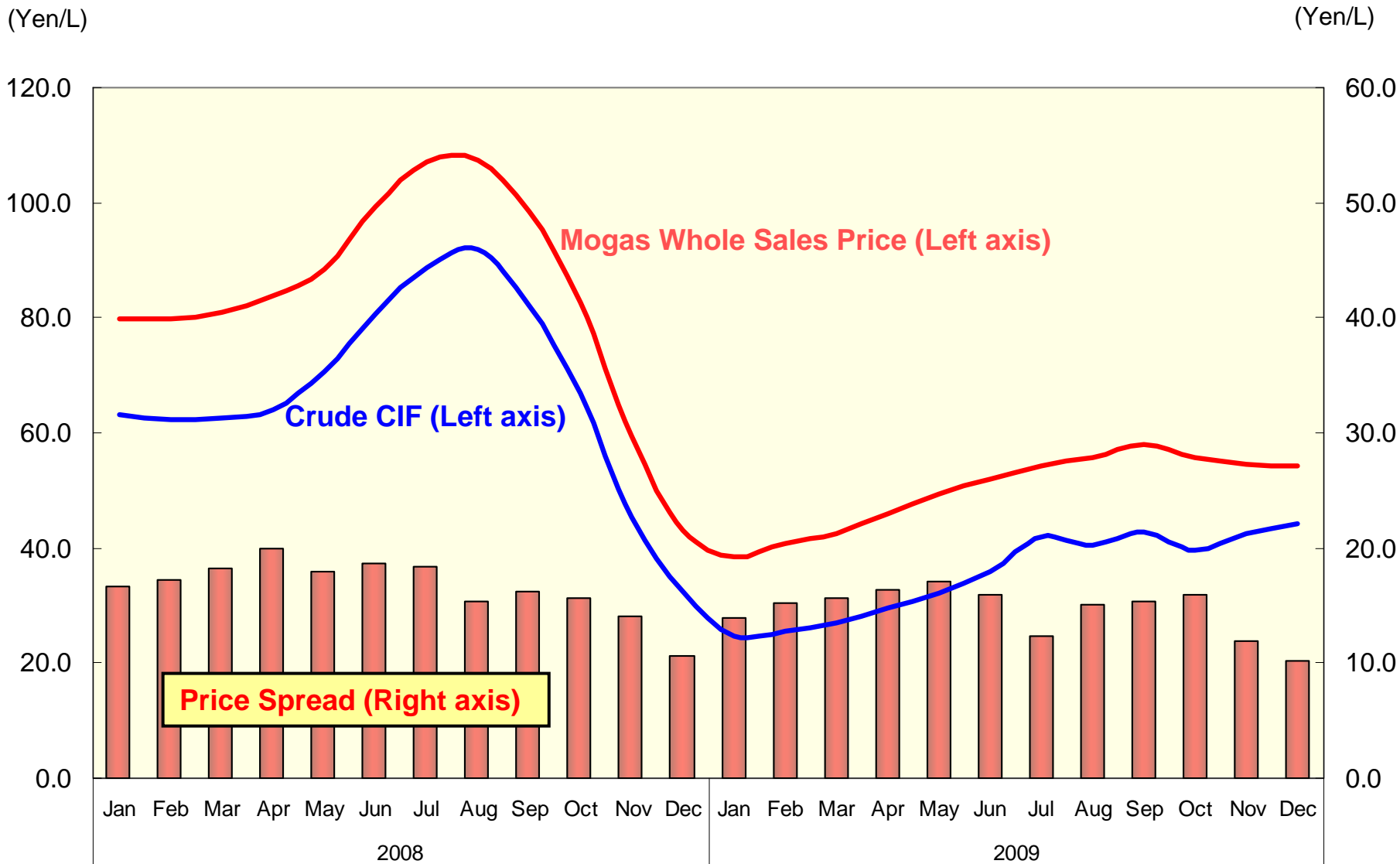
\* Debt excl. cash and loans receivable      \*\* Net Worth excl. Minority Interest

\*\*\* Excludes any funds deposited by BSF joint venture

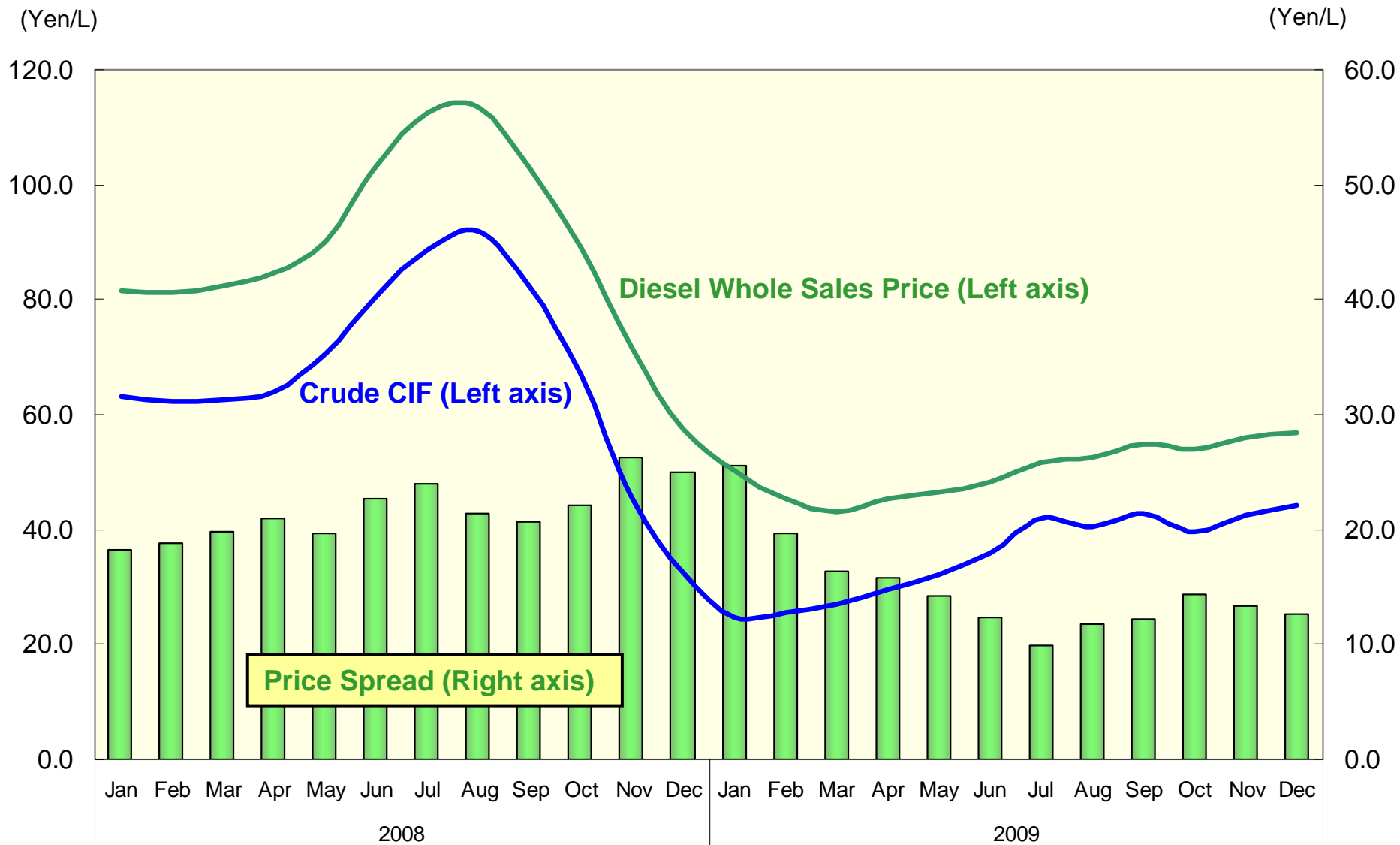
## Supplemental Information

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

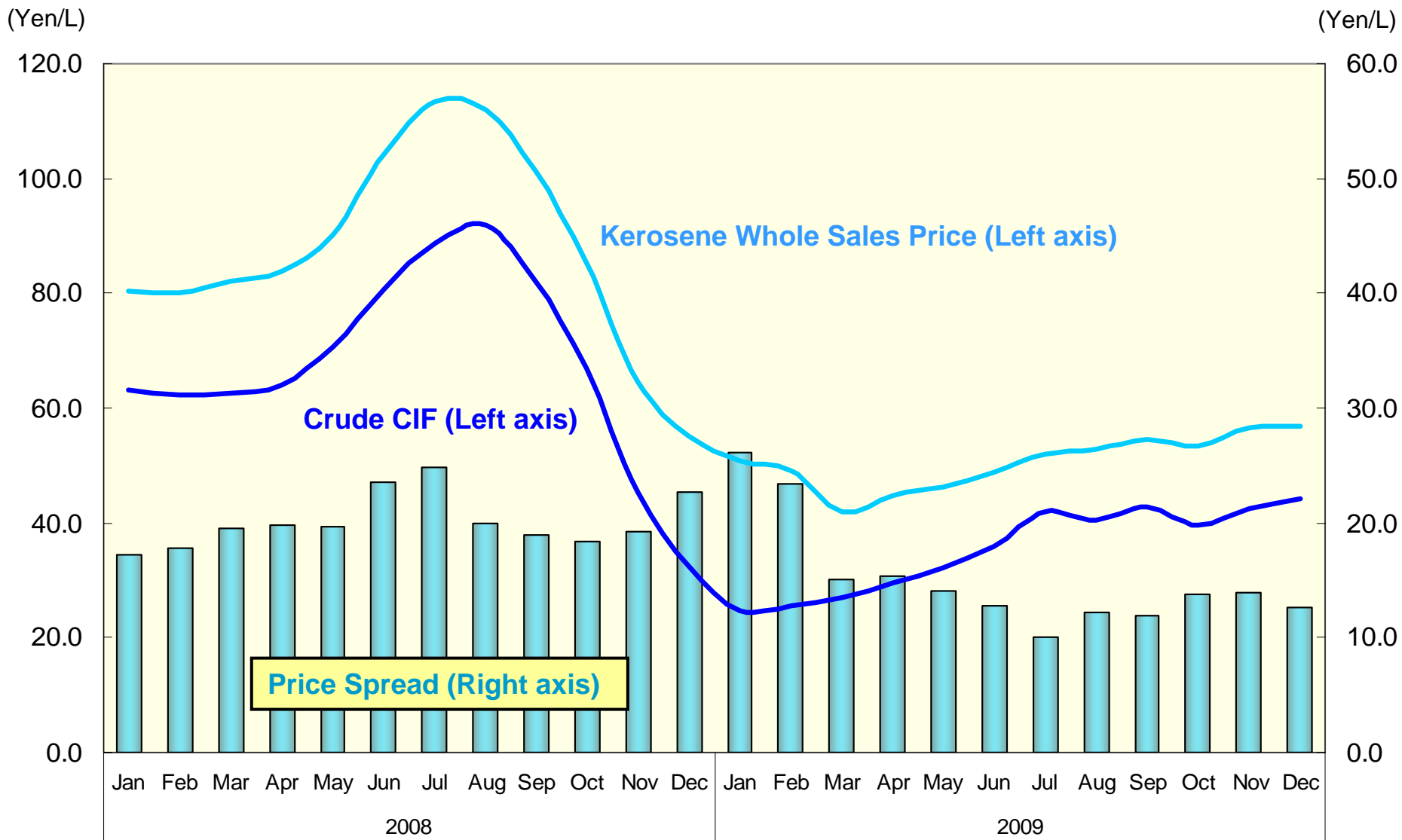


# Price Spread (Diesel Wholesale Price vs. Crude CIF)



Source: PAJ and The Oil Information Center

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





# Details of Operating Income (2008 & 2009)



TonenGeneral

営業利益内訳 (単位: 億円)	Breakdown of Operating Income (Unit: 100MYen = Oku Yen)	'09 1-3月期 1Q09	'09 4-6月期 2Q09	'09 7-9月期 3Q09	'09 10-12月期 4Q09	09 通期 FY2009
石油部門 他 (実質)	Oil segment and others (Substantial)	225	-74	-130	-129	-108
石油化学部門	Chemical segment	-23	21	29	11	38
在庫関連利益	Inventory effects	18	54	23	-21	74
原油コスト認識時点の差による影響	Lead lag effects	-90	-240	50	-70	-350
総合計	Total	131	-239	-27	-210	-346

営業利益内訳	Breakdown of Operating Income	'08 1-3月期 1Q08	'08 4-6月期 2Q08	'08 7-9月期 3Q08	'08 10-12月期 4Q08	08 通期 FY2008
石油部門 他 (実質)	Oil segment and others (Substantial)	-114	-10	-149	355	82
石油化学部門	Chemical segment	93	86	70	-110	139
在庫関連利益	Inventory effects	523	-327	130	-186	141
原油コスト認識時点の差による影響	Lead lag effects	15	-400	430	700	745
資産売却に伴う利益	Gain related to divestment	110				110
総合計	Total	627	-650	481	760	1,217