

# TonenGeneral Sekiyu K.K.

## 3Q 2014 Financial Results

November 14, 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.



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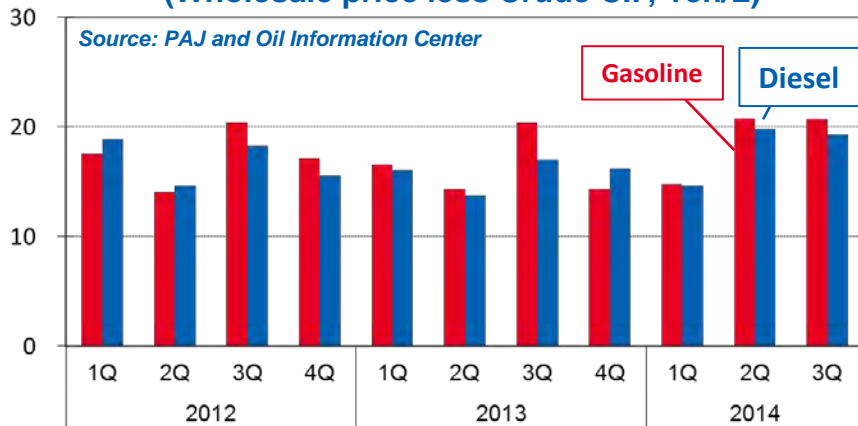
# 3Q14 Company Key Items

- ❑ Extra 20 days required for Kawasaki steam cracker turnaround, approximately 75 kton lost volume
- ❑ Synergy capture for MOC Marketing G.K. (MOCM) above plan
  - All 56 MOCM direct operated service stations converted to Express by October end
- ❑ Initial compliance plan submitted under METI regulations requiring further improvement in the ratio of topper to conversion unit capacity by March of 2017
  - 13% required ratio improvement achievable by 81.5 kbd topper de-rate, added conversion unlikely to be economic
  - Capacity rationalization steps will continue to be evaluated as compliance date approaches
- ❑ TG's Electric Power Business unit will acquire a 10% stake in eREX New Energy Saiki Co., Ltd. to enter biomass power business
  - Broader thermal power generation strategy under development
- ❑ TG (only one in oil industry for 3<sup>rd</sup> straight year) and Tonen Chemical (2<sup>nd</sup> straight year) recognized for achievement of energy conservation law energy benchmarks

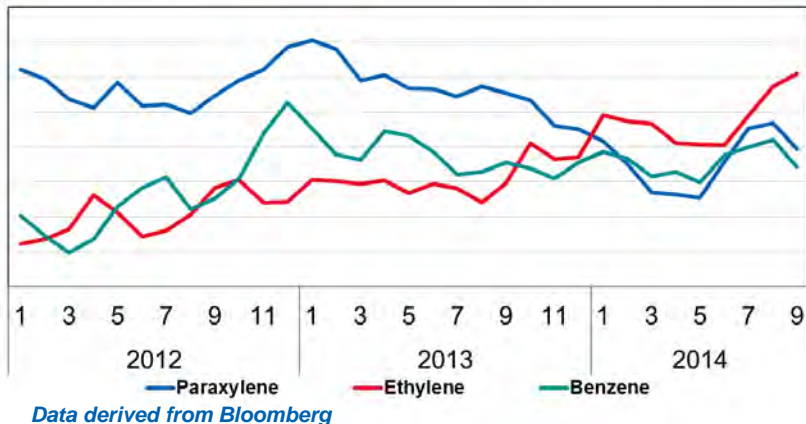
# 3Q14 Business Environment

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

Source: PAJ and Oil Information Center



## Chemical Price Spread vs. Naptha



## Oil Segment

- Margin expansion since 1Q14 due to supply cost decline and product price improvement

vs. 1Q14

(Unit: Yen/L)	2Q14	3Q14
Crude CIF	-2.0	-1.6
Gasoline	+4.0	+4.4
Diesel	+3.2	+3.1

- 3Q14 major fuel demand 7% below 3Q13
  - Gasoline -6.3%, distillates -0.5%
  - Fuel Oil C -24.9% less power use demand
- 3Q14 export profitable but below domestic

## Chemical Segment

- Ethylene margins remain favorable due to tight supply from turnarounds in the region
- Aromatics margins improved versus 2Q14, but showed declining trend in the quarter

# 3Q14 YTD Financial Highlights

- ❑ Net sales: +208 billion yen, mainly due to adding MOCM / KPI\* from April 2014
- ❑ Operating income was negative 6.9 billion yen, a 56.4 billion yen decline:
  - Inventory : -48.8 billion yen, mainly due to absence of last year gains
  - Oil : -7.9 billion yen, although 9 month results now above break-even
  - Chemical: +0.5 billion yen, current year profit mix driven by olefins and specialties
- ❑ Non-operating: +2.4 billion yen, forex gain / loss partly offset by lower equity earnings
- ❑ Extraordinary: -1.9 billion yen, mainly from SDF case settlement and asset sales loss

(billion yen)	3Q13 YTD	3Q14 YTD	Inc./Dec.
Net Sales	2,410.5	2,618.4	208.0
<b>Operating income</b>	<b>49.5</b>	<b>-6.9</b>	<b>-56.4</b>
Ordinary income	46.9	-7.2	-54.0
Extraordinary gain/loss	0.3	-1.6	-1.9
<b>Net income</b>	<b>25.6</b>	<b>-9.0</b>	<b>-34.5</b>

(Breakdown of operating income)

Inventory gain/loss	39.0	-9.7	-48.8
Goodwill amortization	-12.7	-13.0	-0.3
<b>Adjusted Operating income</b>	<b>23.2</b>	<b>15.8</b>	<b>-7.4</b>
Oil segment	8.9	1.0	-7.9
Chemical segment	14.3	14.8	0.5

Oil segment	
3Q13YTD	8.9
• Margin	-8.3
• Volume	-4.1
• Opex	4.5
3Q14YTD	1.0

Chemical segment	
3Q13YTD	14.3
• Margin/vol.	-1.8
• Opex	2.3
3Q14YTD	14.8

\* Kyokuto Petroleum Industries Ltd.

# Factor Analysis of 3Q14 Operating Income

## Oil

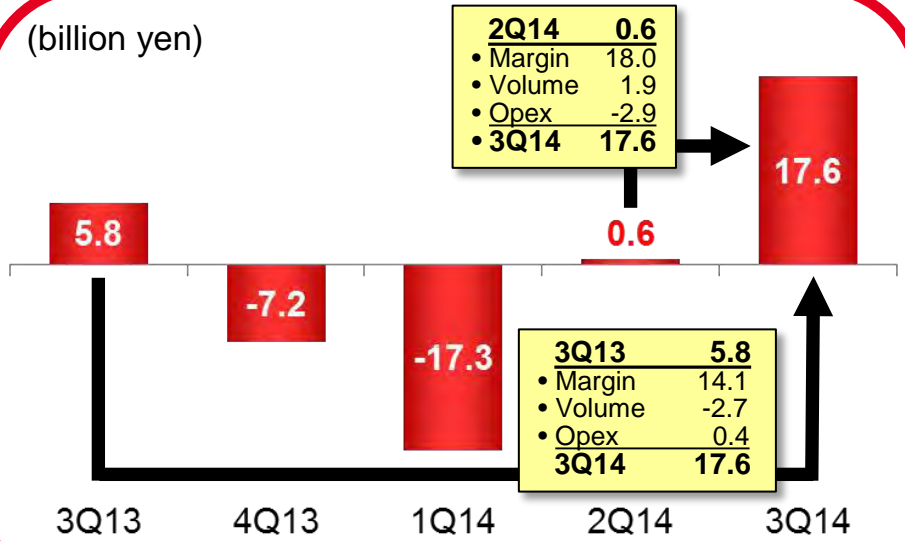
- Versus 2Q14, continued domestic margin improvement, seasonal demand upturn and H-Oil unit back on line following turnaround
- Versus 3Q13, better domestic margins despite weak demand

## Chemical

- 3Q14 steam cracker maintenance reduced margin / volume
- Current year profit mix more weighted towards olefins

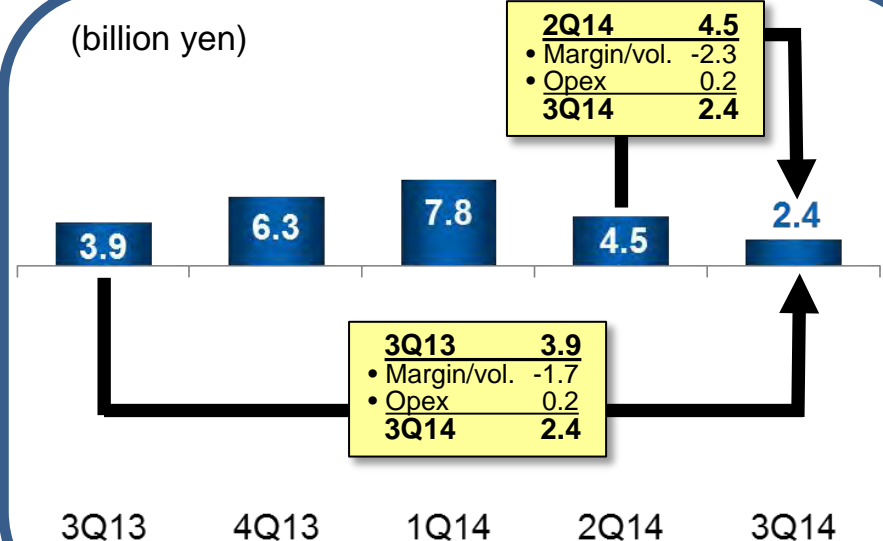
### Quarter to Quarter Adjusted Operating Income (3Q13 through 3Q14)

(billion yen)



**Oil Segment**

(billion yen)



**Chemical Segment**

# Sales Volume\*1

Product	3Q13 YTD	3Q14 YTD	Inc./Dec.	Inc./Dec.
<b>Oil products (KKL)</b>				Industry
Gasoline	8,680	<b>7,978</b>	-8.1%	-3.3%
Kerosene	2,369	<b>2,009</b>	-15.2%	-1.8%
Diesel Fuel	3,047	<b>2,980</b>	-2.2%	0.9%
Fuel Oil A	1,212	<b>1,116</b>	-7.9%	-2.8%
Fuel Oil C	1,934	<b>1,701</b>	-12.1%	-13.6%
LPG/Jet/Others	3,314	<b>3,645</b>	+10.0%	
Domestic sales total*2	20,557	<b>19,429</b>	-5.5%	
Export	5,448	<b>5,224</b>	-4.1%	
Oil products	26,004	<b>24,654</b>	-5.2%	
<b>Chemical Products (Kton)</b>				
Olefins and others	1,192	<b>1,130</b>	-5.2%	
Aromatics	559	<b>602</b>	+7.7%	
Specialties	184	<b>170</b>	-7.5%	
Chemical products	1,935	<b>1,902</b>	-1.7%	
<b>Topper Utilization*3</b>	83%	<b>81%</b>		Industry 3Q14 YTD 81%

Domestic / export sales mix varied in response to margins vs. previous year (%)

	1Q14	2Q14	3Q14
Domestic	-12.7	-8.4	-3.7
Export	+12.6	-4.0	-15.4

- YTD Retail gasoline sales performance above industry
- Olefins and specialties reflect steam cracker maintenance
- Aromatics reflect absence of Sakai turnaround and higher mixed xylene and toluene volume

\*1 Restated volume data to include MOCM 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

# FY2014 Earnings Forecast

- FY2014 operating income: 35 billion yen inventory loss reflected, otherwise unchanged assuming:
  - Oil: 4Q14 margins compressed versus 3Q14
  - Chemical: 4Q14 reflects feedstock cost disruption from extended steam cracker turnaround
- Unchanged 50 billion yen tax effect in 4Q14 from de-capitalization of a subsidiary
- 38 yen per share dividend forecast reaffirmed

billion yen	3Q14YTD Actual	FY14 Forecast		Delta
		Aug. Rev.	Nov. Rev.	
Net Sales	2,618.4	3,600	<b>3,400</b>	-200
<b>Operating income</b>	<b>-6.9</b>	<b>6</b>	<b>-29</b>	<b>-35</b>
Ordinary income	-7.2	4	<b>-30</b>	-34
Extraordinary gain/loss	-1.6	-1	<b>-1</b>	-
<b>Net income</b>	<b>-9.0</b>	<b>47</b>	<b>26</b>	<b>-21</b>
(Breakdown of operating income)				
Inventory gain/loss	-9.7	0	<b>-35</b>	-35
Goodwill amortization	-13.0	-17	<b>-17</b>	-
Adj. Operating income	15.8	23	<b>23</b>	-
Oil segment	1.0	-7	<b>7</b>	-
Chemical segment	14.8	16	<b>16</b>	-

Note) Assumed Oct. Dubai (\$87/bbl) and Forex (108Yen/\$) continues through 2014

# Cash Flows, Debt/Equity

- 3QYTD 2014 adjusted free cash flow was 32.8 billion yen
  - Working capital optimization for MOCM / KPI and seasonality partly offset by net loss before tax
- 3Q14YTD net debt increased by 120 billion yen vs. 2013 end

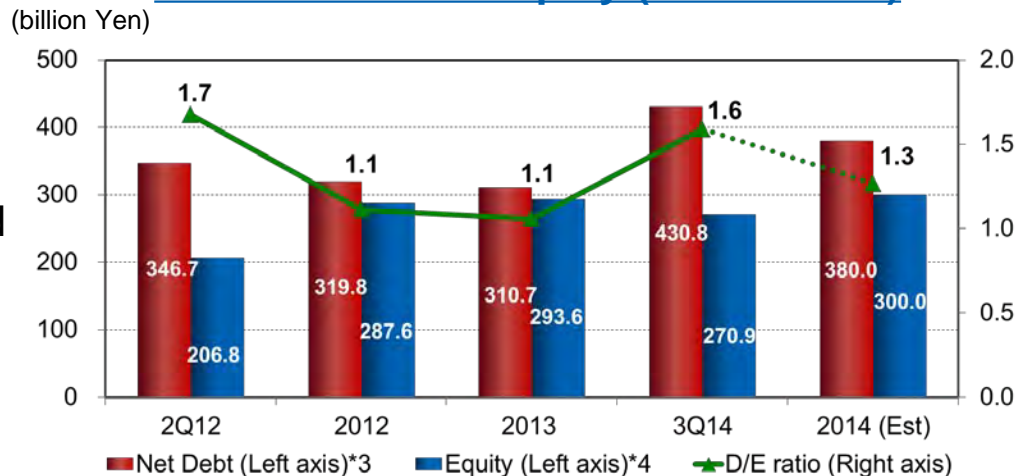
	<u>billion yen</u>
Negative free cash flow	34.2
Dividend payment	13.2
MOCM/KPI debt addition and others	72.7
<b>Total</b>	<b>120.1</b>

- Net D/E ratio to improve from 1.6 at 3Q14 end to 1.3 toward year end
  - Equity increase due to 4Q net income
  - Absence of excise tax timing effects and further working capital reduction

## 3QYTD 2014 Cash flow (billion yen)

Net income before taxes	-8.8
Depreciation* <sup>1</sup> / (Capex)	12.0
Working capital changes / other	29.6
<b>Adjusted Free Cash Flow</b>	<b>32.8</b>
MOCM acquisition	-25.5
Timing of excise tax payment	-41.5
<b>Free Cash Flow*<sup>2</sup></b>	<b>-34.2</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

# Sales Volume

## □ Sales volume consistent with net sales

Product	3Q13*1 YTD	3Q14*2 YTD	Inc./Dec.	Inc./Dec.
<b>Oil products (KKL)</b>				Industry
Gasoline	7,678	<b>7,689</b>	0.1%	-3.3%
Kerosene	1,884	<b>1,776</b>	-5.8%	-1.8%
Diesel Fuel	2,399	<b>2,821</b>	17.6%	0.9%
Fuel Oil A	1,065	<b>1,069</b>	0.4%	-2.8%
Fuel Oil C	1,673	<b>1,649</b>	-1.4%	-13.6%
LPG/Jet/Others	2,852	<b>3,440</b>	20.6%	
<b>Domestic sales total</b>	<b>17,552</b>	<b>18,444</b>	<b>5.1%</b>	
<b>Export</b>	<b>4,904</b>	<b>5,036</b>	<b>2.7%</b>	
<b>Oil products</b>	<b>22,457</b>	<b>23,480</b>	<b>4.6%</b>	
<b>Chemical Products (Kton)</b>				
Olefins and others	1,199	<b>1,121</b>	-6.6%	
Aromatics	559	<b>602</b>	7.7%	
Specialties	184	<b>170</b>	-7.5%	
<b>Chemical products</b>	<b>1,942</b>	<b>1,893</b>	<b>-2.5%</b>	
				Industry 3Q14 YTD
<b>Topper Utilization*3</b>	<b>87%</b>	<b>78%</b>		<b>81%</b>

- \*1 Not include MOCM acquisition effect
- \*2 Includes MOCM acquisition effect for 2Q and 3Q14
- \*3 Utilization for TonenGeneral three refineries and excluding the decommissioned two toppers for both periods

# Sensitivities for 2014 Earnings Forecast

## □ Base assumptions for the earnings forecast

Key Factors	Unit	Base	Reference
Dubai FOB	US\$/bbl	87	October 2014 average
Exchange Rate	Yen/US\$	108	October 2014 average

Above assumptions used for net sales and inventory effects calculation

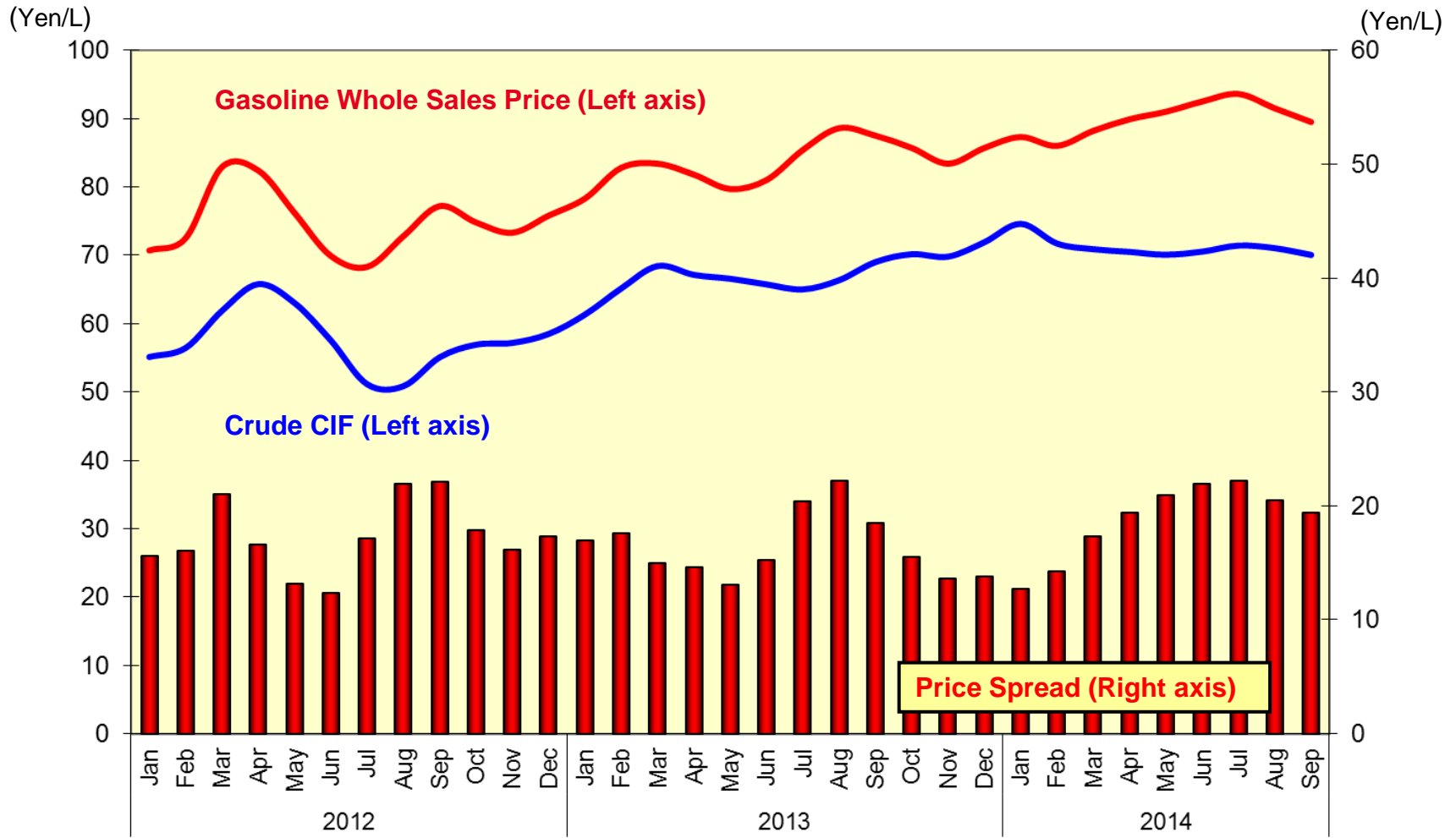
## □ Full year sensitivities in the future operating income

Key Factors	Unit	Appreciation by	Annual Impact (billion yen) Operating income* <sup>1</sup>
Dubai FOB	US\$/bbl	10	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

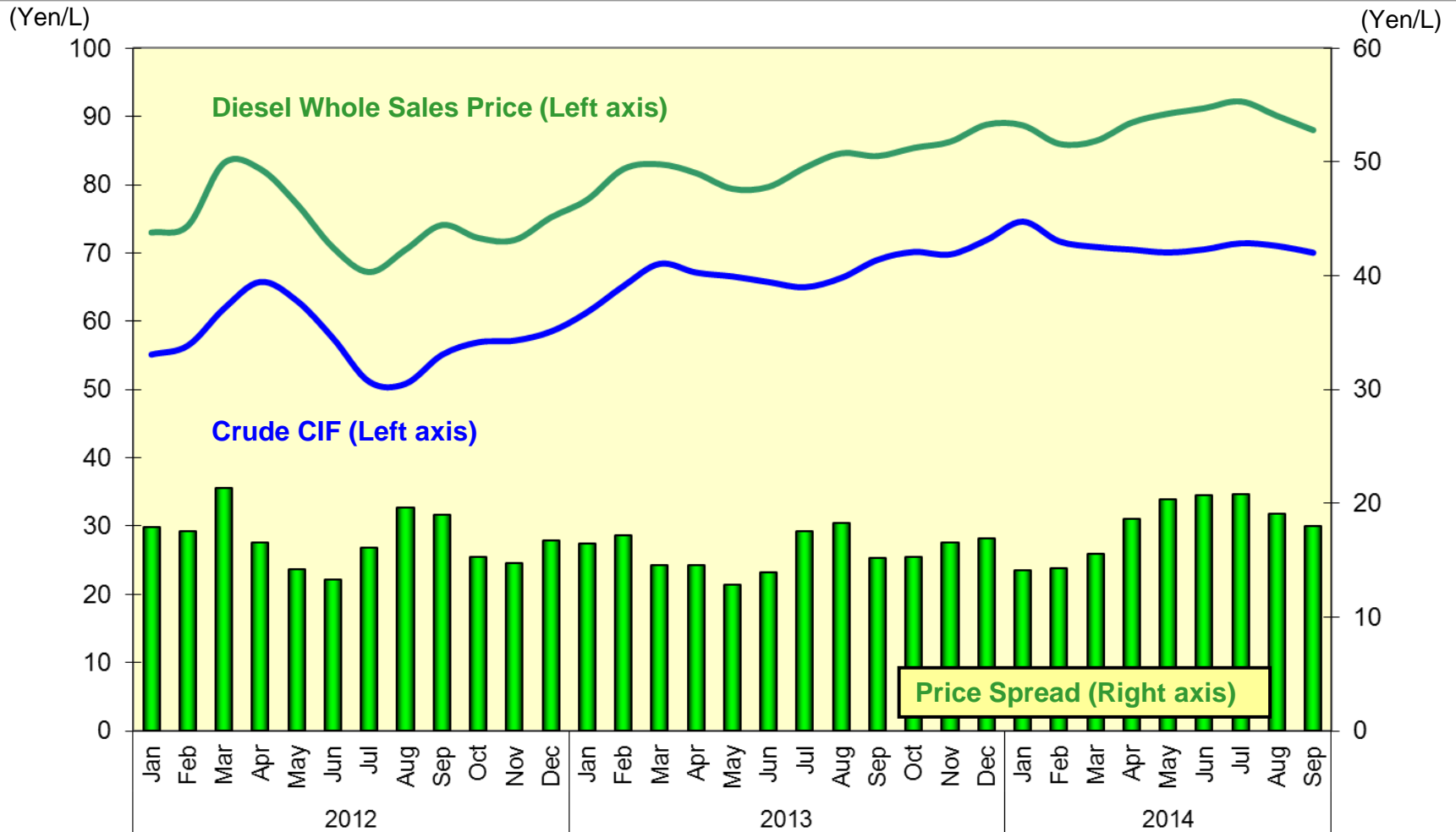
\*<sup>2</sup> Impact to operating income on annual basis rounded to nearest billion yen subject to change in sales volume

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



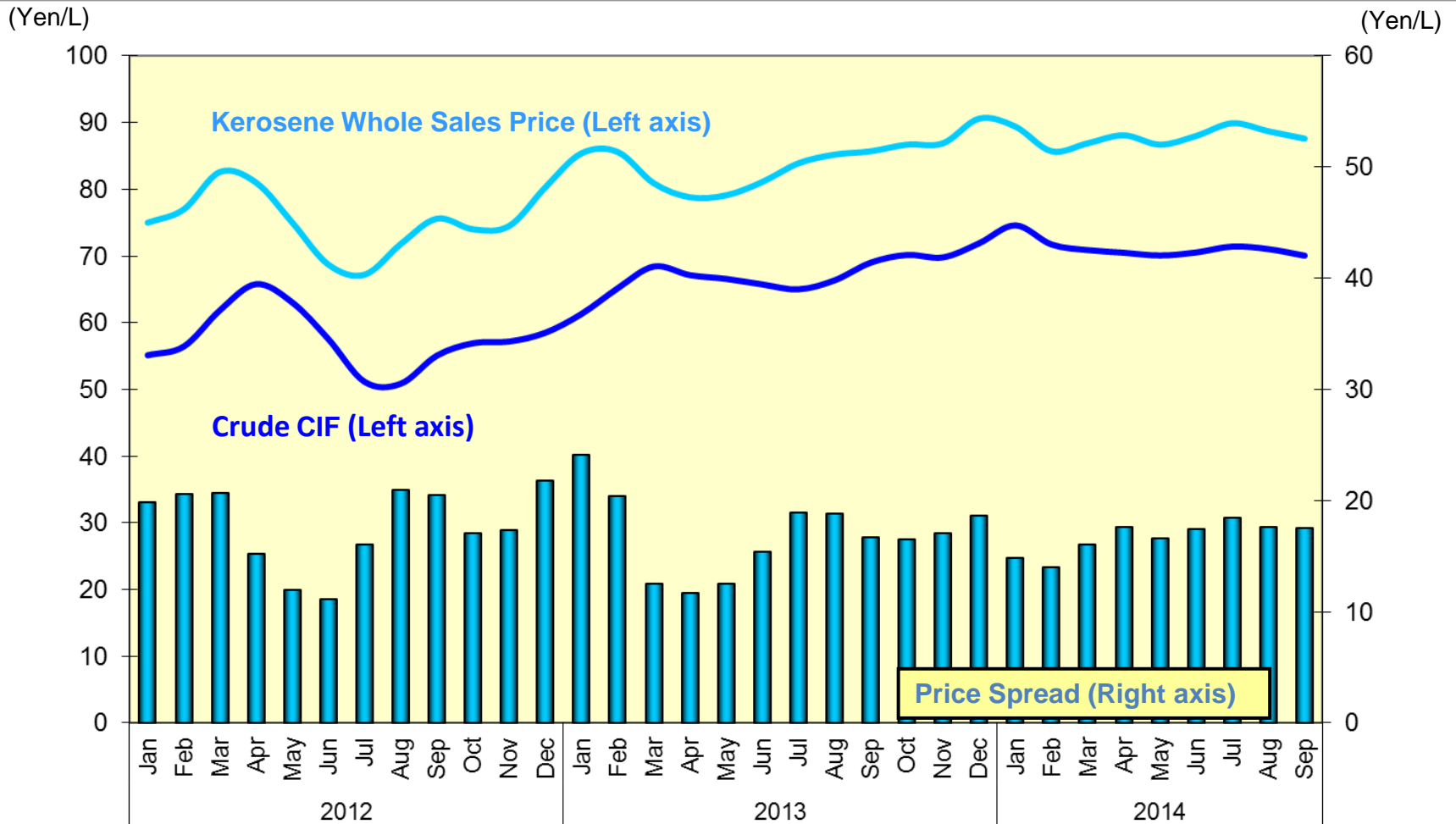
Source: PAJ and The Oil Information Center

# 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 (2012 – 3Q14)

2014

(Unit: billion yen)

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

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>