

TonenGeneral Sekiyu K.K.

Full Year 2014 Financial Results

February 16, 2015
at TSE Arrows

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- 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

Agenda

- 2014 Business Overview

Representative Director, President J. Mutoh

- 2014 Results and 2015 Forecast

Managing Director D. R. Csapo

- Q & A

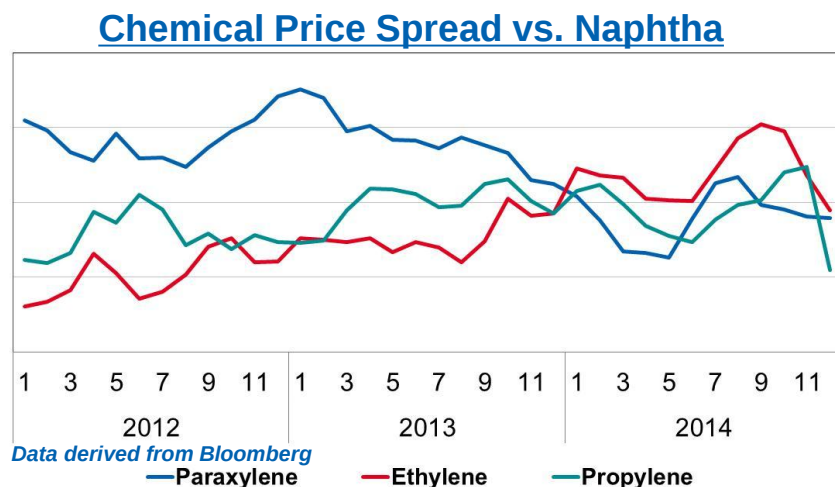
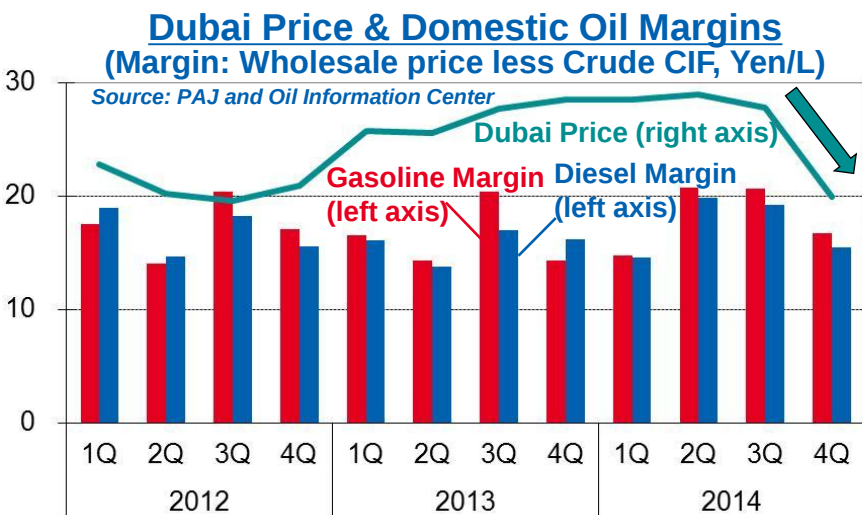
2014 Business Overview

J. Mutoh

Representative Director, President
TonenGeneral Sekiyu K.K.

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- ❑ 2014 Business Environment
 - ❑ 2014 Business Results – Key parameters
 - ❑ Steps to strengthen the Core
 - Integration of Acquired Businesses
 - Collaboration with Others
 - Continuous Improvements
 - ❑ Progress of Growth Option Development
 - ❑ Mid to Long Term Perspective

2014 Business Environment



Oil Segment

- ❑ Crude price rapid decline in 4Q
 - Down by 27\$/bbl / 13 Yen/L vs. 3Q14)
- ❑ 2014 domestic margins varied widely
 - 1Q weak demand / excess capacity
 - 2Q-3Q recovery as capacity reduced / turnarounds
 - 4Q compression as prices declined faster than book crude costs
- ❑ 2014 demand* was 4.5% below 2013
 - Gasoline -3%, distillates -2.3%
 - Industry crude runs 4.7% below last year
- ❑ Export margins volatile, weak 2Q/3Q recovered in 4Q
 - Year on year, Yen decline improved cost competitiveness of Japan refiners

Chemical Segment

- ❑ Average 2014 olefins margins strong, but propylene hurt by new AP capacities in 4Q
- ❑ Paraxylene impacted through 2014 by new AP capacities

* Major five fuels total

2014 Business Results - Key Parameters

<u>Key Parameters</u> (billion yen)	2013 Act	2014 Act	Medium Term Plan (MTP)		
			2013 Plan	2015 Plan	2017 Plan
□ Adj. operating income *1	22.2	30.9	60	70	80-100
□ Capital Expenditure	16.8	57.2	← 130+α*3 →		
□ Free Cash Flow *2	30.0	47.5	← 200*3 →		
□ Dividend (Yen/Share)	38.0	38.0	← Stable dividend →		

- **Operating income*1** : Excluding depressed 1H14, 2H performance close to MTP
 - Rapid response to shifting domestic / export margin environment improved 2014 results
- **Capital expenditure** : 30.5 billion yen invested to maintain and strengthen the core and the 26.6 billion yen of MOC Marketing (MOCM) *4 acquisition added high quality marketing assets and full control of Kyokuto Petroleum Industries (KPI)
- Free cash flow allowed both debt reduction from post MOCM acquisition peak and 38 yen/share dividend

*1 Excluding goodwill amortization and inventory effects

*2 The sum of cash flows from operating net of investing activities

*3 Five year cumulative amounts for 2013-2017

*4 MITSUI OIL CO., LTD renamed MOC Marketing K.K. in February 2014 and MOC Marketing Godo Kaisha in August 2014

Steps to Strengthen the Core (1)

– Integration of Acquired Businesses

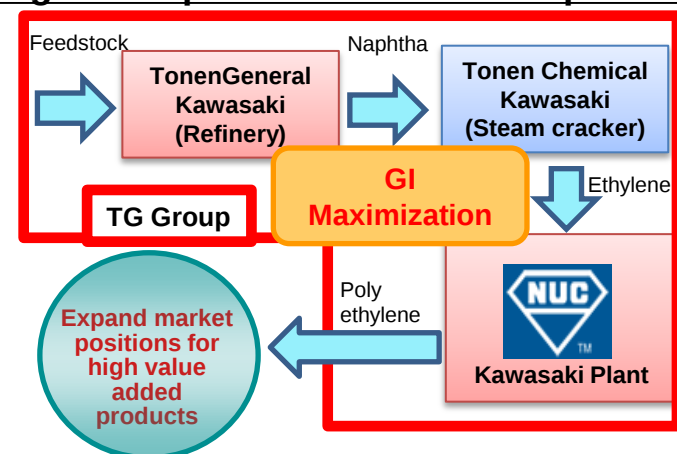
- ❑ Steady and speedy transition progress in MOCM consolidation
 - All 56 direct operated service stations converted to Express format
 - Logistics cost savings as MOCM 15 supply points switched TG facilities and utilization of coastal time charter vessels maximized
 - MOCM SSs started selling Mobil 1
- ❑ KPI fully integrated with TG refineries to optimize crude procurement, production and working capital
 - Shifted gasoline production to Kawasaki, distillate production for export to KPI to reduce overall costs
 - Reduced overall TG group inventory by 850KKL at 2014 end vs. 2013 end
- ❑ NUC operated for TG group general interest and shift to high value products
 - NUC consumes 40% of ethylene produced internally enabling high utilization rate of steam cracker
 - Established NUC Shanghai office in September 2014 to enhance high-voltage electric wire & cable insulation products businesses



Ageo SS switched to Express

Advanced full synthetic motor oil “Mobil 1”

Integrated Operation from GI Perspectives



Steps to Strengthen the Core (2)

– Collaboration with Others

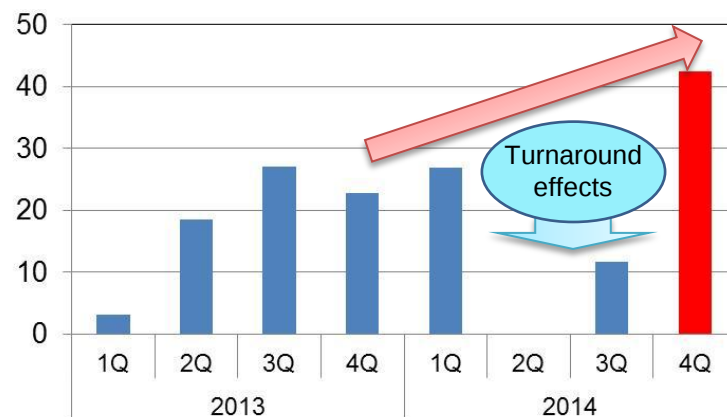
- ❑ Joint organization established in January 2015 to manage collaboration between Cosmo Oil's Chiba Refinery and KPI
 - Selected by RING*¹ as an Oil Industry Structure Improvement Project
 - Annual synergy of 10 billion yen expected for both companies after pipeline construction
 - Captured tactical opportunities in 2014 using existing facilities, e.g. feedstock interchange, co-loading of export / crude vessels
- ❑ Four corporate group integrated LPG import and wholesale operations to start in April 2015
- ❑ Maximized utilization of expanded H-Oil unit and reduced Fuel Oil C output through increased feedstock transfer with Toa Oil in Kawasaki



KPI Chiba Refinery

Feedstock Optimization with Toa Oil

Transfer Volume, KKL



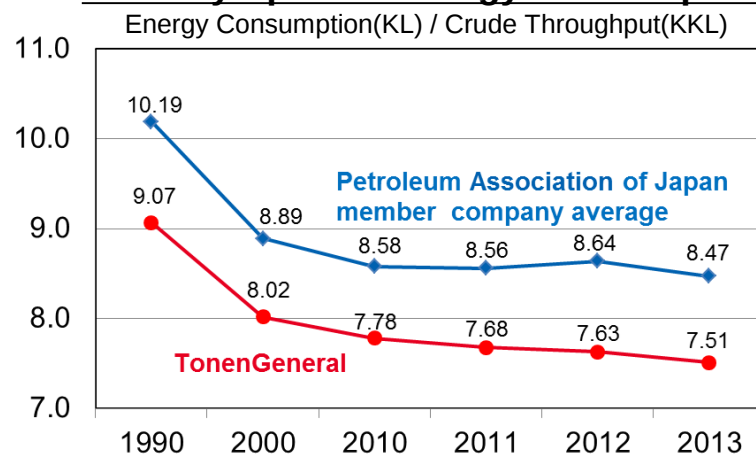
*1 Research Association of Refinery Integration for Group-Operation

Steps to Strengthen the Core (3)

– Continuous Improvement

- ❑ Optimization of manufacturing capabilities
 - Topper capacity reduction by 128 KBD to 708KBD
 - H-Oil expansion completed in March 2014
- ❑ TG and Tonen Chemical recognized for achieving energy conservation law energy benchmarks
- ❑ Enhancing Seven-Eleven Japan alliance
 - Popular nanaco*1 program available not only at Express sites but full-serve sites
- ❑ Carefully managed gasoline to chemical production to maximize profitability
 - Medium-term strategy of shifting from fuels to petrochemical unchanged
 - Progressed project development to build mixed xylene recovery unit at KPI Chiba Refinery

Refinery Specific Energy Consumption



2014 Progress of Fuels Marketing

# of Marketing tools	2013 End	2014 End
Seven-Eleven alliance sites	86	97
nanaco point program users (in December)	0.8 million	1.4 million
Express sites	963	1,065
Speedpass*2	4.2 million	4.6 million

*1 Prepaid payment tool issued by Seven Card Service that can be used at Seven-Eleven, Denny's, ItoYokado, Sogo and Seibu.

*2 Contactless payment device that can be used at "Express".

Progress of Growth Option Development

- Actively developing growth options in line with MTP objectives

Electricity Businesses

- Electric Power Business Unit formed; initial steps include investment in biomass power generation and commencement of environmental assessment for Shimizu LNG Power Generation

Shimizu LNG Power Generation



- Thermal power generation success criteria include: adequate returns, quality partners, competitive fuel cost, industry leading technology and electricity sales at best value

Overseas Opportunities - 3-5 year development horizon

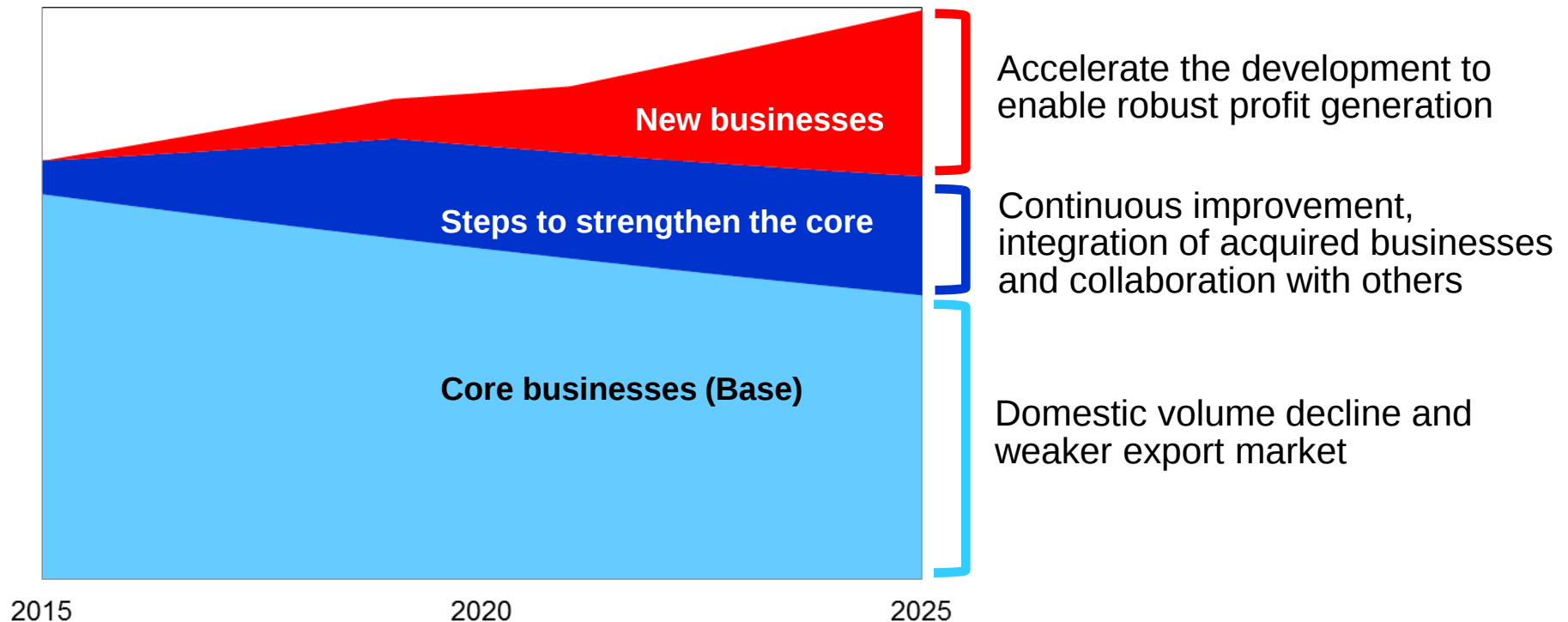
- Seeking new business such as supply chain development at locations offering favored logistics from TG refineries, stable business environment and growing / stable demand

Specialties Chemical

- Establish R&D function to develop differentiated products and align with market needs

Mid to Long Term Perspective

Future Earnings Perspective



- ❑ Seek steps to strengthen the core to offset demand decline
- ❑ Targeting one-third profit contribution from new businesses by 2025 and enhanced shareholder value

Conclusions

**Strengthen
Core Businesses**

**Expand Growth
Options**

Unchanged Core Values

- Safety, environmental and ethical objectives
- Rigorous investment evaluation and continuous efficiency mindset
- Emphasize stable returns to shareholders, while taking into account of financial resilience, mid to long term profitability and cash flows and capital expenditure plans

2014 Business Results and 2015 Financial Forecast

D. R. Csapo

Managing Director
TonenGeneral Sekiyu K.K.

2014 Financial Highlights

- ❑ Net sales: +209.9 billion yen, mainly due to adding MOCM / KPI from April 2014
- ❑ Operating income was negative 72.9 billion yen, a 125.2 billion yen decline:
 - Inventory : -133.5 billion yen, 86.5 billion yen loss on sharp price drop versus gain in 2013
 - Oil : +16.0 billion yen, improved domestic margins since 2Q14
 - Chemical : -7.4 billion yen, weak aromatics
- ❑ Net income: 14 billion yen loss includes approximately 40 billion yen of positive tax effects mainly related to de-capitalization of a subsidiary

(billion yen)	FY2013	FY2014	Inc./Dec.
Net Sales	3,241.2	3,451.1	209.9
Operating income	52.3	-72.9	-125.2
Ordinary income	49.8	-73.4	-123.2
Extraordinary gain/loss	-1.6	-2.6	-1.0
Income taxes etc.	-25.3	62.0	87.3
Net income	22.9	-14.0	-36.9

(Breakdown of operating income)

Inventory gain/loss	47.0	-86.5	-133.5
Goodwill amortization	-16.9	-17.3	-0.4
Adjusted Operating income	22.2	30.9	8.6
Oil segment	1.7	17.7	16.0
Chemical segment	20.6	13.2	-7.4

Oil segment	
FY2013	1.7
• Margin	15.9
• Volume	-4.8
• Opex	4.9
FY2014	17.7

Chemical segment	
FY2013	20.6
• Margin/vol.	-10.5
• Opex	3.1
FY2014	13.2

Factor Analysis of 4Q14 Operating Income

Oil

- Two consecutive quarters of strong profitability
- Both domestic and export margins weaker than 3Q14
- 4Q14 benefited from favorable crude price timing effects

Chemical

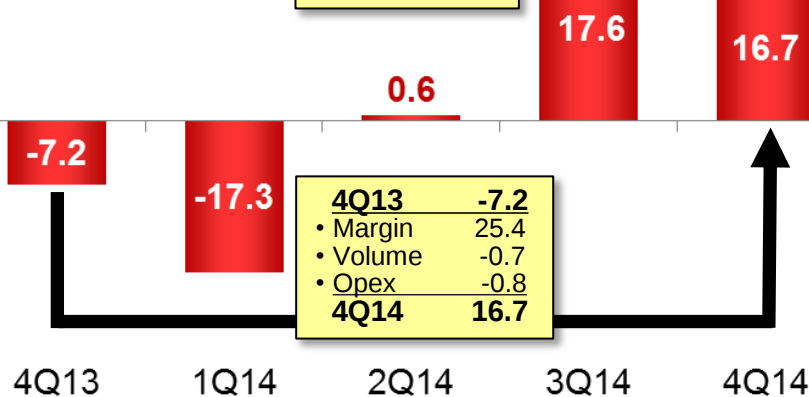
- Naphtha feedstock price lag / adverse purchase timing hurt 4Q14
- Supply / demand fundamentals deteriorated for aromatics / propylene

Quarter to Quarter Adjusted Operating Income (4Q13 through 4Q14)

(billion yen)

3Q14	17.6
• Margin	1.1
• Volume	-0.2
• Opex	-1.8
4Q14	16.7

4Q13	-7.2
• Margin	25.4
• Volume	-0.7
• Opex	-0.8
4Q14	16.7

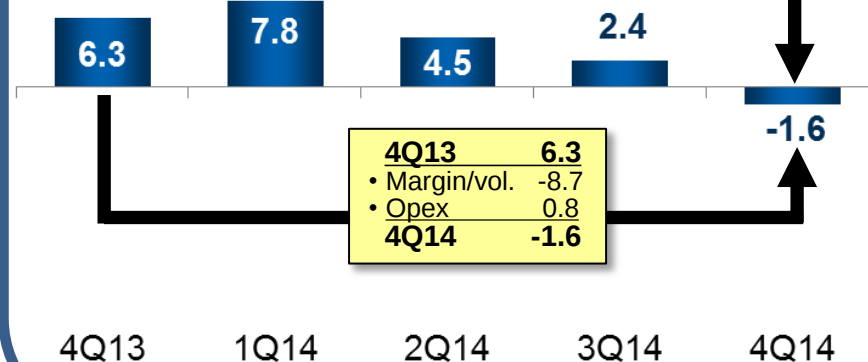


Oil Segment

(billion yen)

3Q14	2.4
• Margin/vol.	-4.3
• Opex	0.3
4Q14	-1.6

4Q13	6.3
• Margin/vol.	-8.7
• Opex	0.8
4Q14	-1.6



Chemical Segment

Sales Volume*1

Product	FY 2013	FY 2014	Inc./Dec.
Oil products (KKL)			
Gasoline	11,437	10,614	-7.2%
Kerosene	3,400	3,015	-11.3%
Diesel Fuel	4,082	3,912	-4.2%
Fuel Oil A	1,626	1,461	-10.2%
Fuel Oil C	2,594	2,263	-12.7%
LPG/Jet/Others	4,671	4,810	+3.0%
Domestic sales total*2	27,810	26,074	-6.2%
Export	6,871	6,836	-0.5%
Oil products	34,681	32,910	-5.1%
Chemical Products (Kton)			
Olefins and others	1,664	1,525	-8.3%
Aromatics	755	810	+7.3%
Specialties	245	221	-9.8%
Chemical products	2,664	2,557	-4.0%
Topper Utilization*3	81%	80%	

Inc./Dec.
Industry
-3.0%
-4.5%
+0.1%
-5.1%
-14.6%

Industry FY 2014
81%

- ❑ Proactive volume management in response to margins
 - Export / domestic sales mix managed for best profit
- ❑ 2014 retail gasoline sales performance above industry
- ❑ Steam cracker maintenance reduced olefins / specialties
- ❑ Aromatics reflect absence of Sakai turnaround and higher mixed xylene and toluene
 - Gasoline to Chemical incentive declined since 2Q14

- *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

FY2015 Earnings Forecast

- 2015 operating income forecast: 45 billion yen, 117.9 billion yen above 2014
 - Inventory: assumed zero, vs. 86.5 billion yen loss in 2014
 - Oil: favorable 2H14 domestic margins continue and MOCM/KPI contribution increases
 - Chemical: low aromatics margins continue and olefins weaken vs. 2014
- Net income includes 10 billion yen extraordinary gain upon the formation of LPG JV and negative 16 billion yen tax effects due to anticipated tax reform in 1Q15
- 38 yen per share dividend forecast

billion yen	Forecast 1H15	Forecast 2H15	Forecast FY15		Memo FY14	FY15 vs. FY14
Net Sales	1,350	1,350	2,700		3,451.1	-751.1
Operating income	23	22	45		-72.9	117.9
Ordinary income	23	22	45		-73.4	118.4
Extraordinary gain/loss	9	0	9		-2.6	11.6
Net income	5	11	16		-14.0	30.0

(Breakdown of operating income)

Inventory gain/loss	0	0	0		-86.5	86.5
Goodwill amortization	-8.5	-8.5	-17		-17.3	-
Adj. Operating income	31.5	30.5	62		30.9	31.1
Oil segment	26.5	24.5	51		17.7	33.3
Chemical segment	5	6	11		13.2	-2.2

Note) Assumed Dec. 2014 Dubai (\$60/bbl) and Forex (119Yen/\$) continues through 2015

Cash Flows, Debt/Equity

- 2014 free cash flow was 47.5 billion yen
 - Reduction in working capital through crude and product price decline and inventory optimization following KPI integration

- The positive free cash flow limited the increase in net debt

	(billion yen)
Free cash flow	47.5
Dividend payment	(13.8)
MOCM/KPI debt addition and others	(73.6)
(Increase)/decrease in net debt	(39.9)

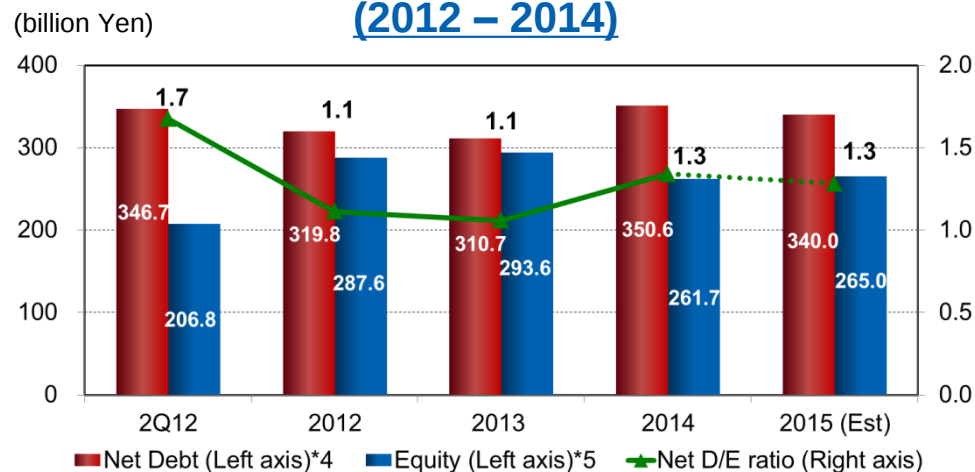
- Free cash flow will cover capital expenditure and dividend in 2015 with some room for further debt reduction
 - Net D/E ratio was 1.3 at 2014 end, similar level forecast for 2015 end

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

2014 Cash flow (billion yen)

Free Cash Flow *1	47.5
Net income before taxes *2	10.5
Depreciation*3 / (Capex)	10.9
MOCM acquisition	-25.5
Working capital change / others *2	51.6

Period end Net Debt/Equity (2012 – 2014)



Supplemental Information

Sales Volume

□ Sales volume consistent with net sales

Product	FY*1 2013	FY*2 2014	Inc./Dec.	Inc./Dec.
Oil products (KKL)				Industry
Gasoline	10,116	10,325	2.1%	-3.0%
Kerosene	2,640	2,781	5.3%	-4.5%
Diesel Fuel	3,241	3,753	15.8%	+0.1%
Fuel Oil A	1,438	1,414	-1.6%	-5.1%
Fuel Oil C	2,247	2,211	-1.6%	-14.6%
LPG/Jet/Others	4,043	4,605	13.9%	
Domestic sales total	23,725	25,089	9.9%	
Export	6,240	6,647	6.5%	
Oil products	29,965	31,736	5.9%	
Chemical Products (Kton)				
Olefins and others	1,623	1,516	-6.6%	
Aromatics	755	810	7.3%	
Specialties	245	221	-9.8%	
Chemical products	2,624	2,548	-2.9%	
Topper Utilization*3				Industry FY 2014
	84%	77%		81%

*1 Not include MOCM acquisition effect

*2 Includes MOCM acquisition effect for 2Q-4Q14

*3 Utilization for TonenGeneral three refineries and excluding the decommissioned two toppers for both periods

Sensitivities for 2015 Earnings Forecast

Base assumptions for the earnings forecast

Key Factors	Unit	Base	Reference
Dubai FOB	US\$/bbl	60	December 2014 average
Exchange Rate	Yen/US\$	119	December 2014 average

Above assumptions used for net sales and inventory effects calculation

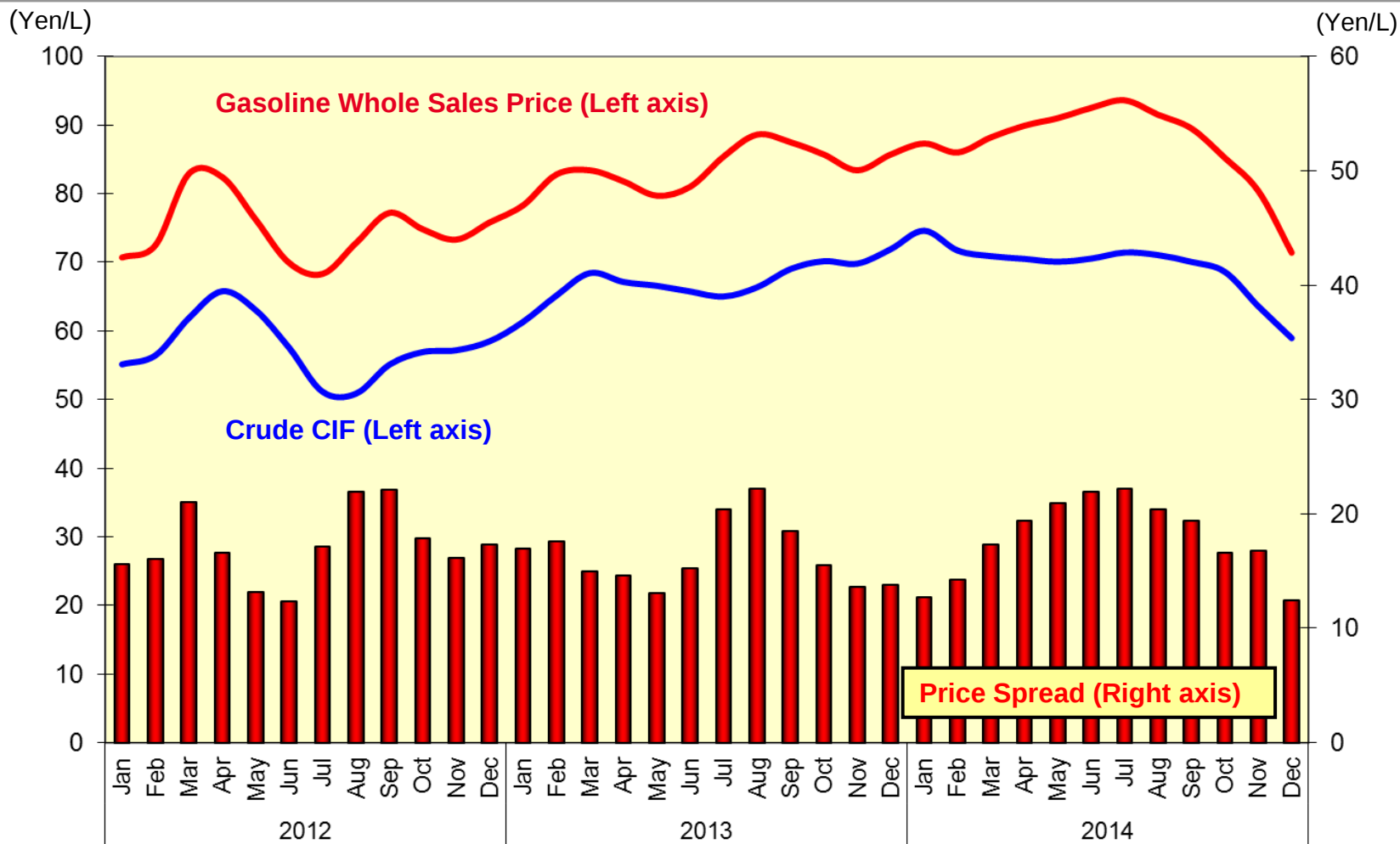
Sensitivities in the future operating income

Key Factors	Unit	Appreciation by	Annual Impact (billion yen) Operating income ^{*1}
Dubai FOB	US\$/bbl	10	25 ^{*1}
Exchange Rate	Yen/US\$	10	-15 ^{*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

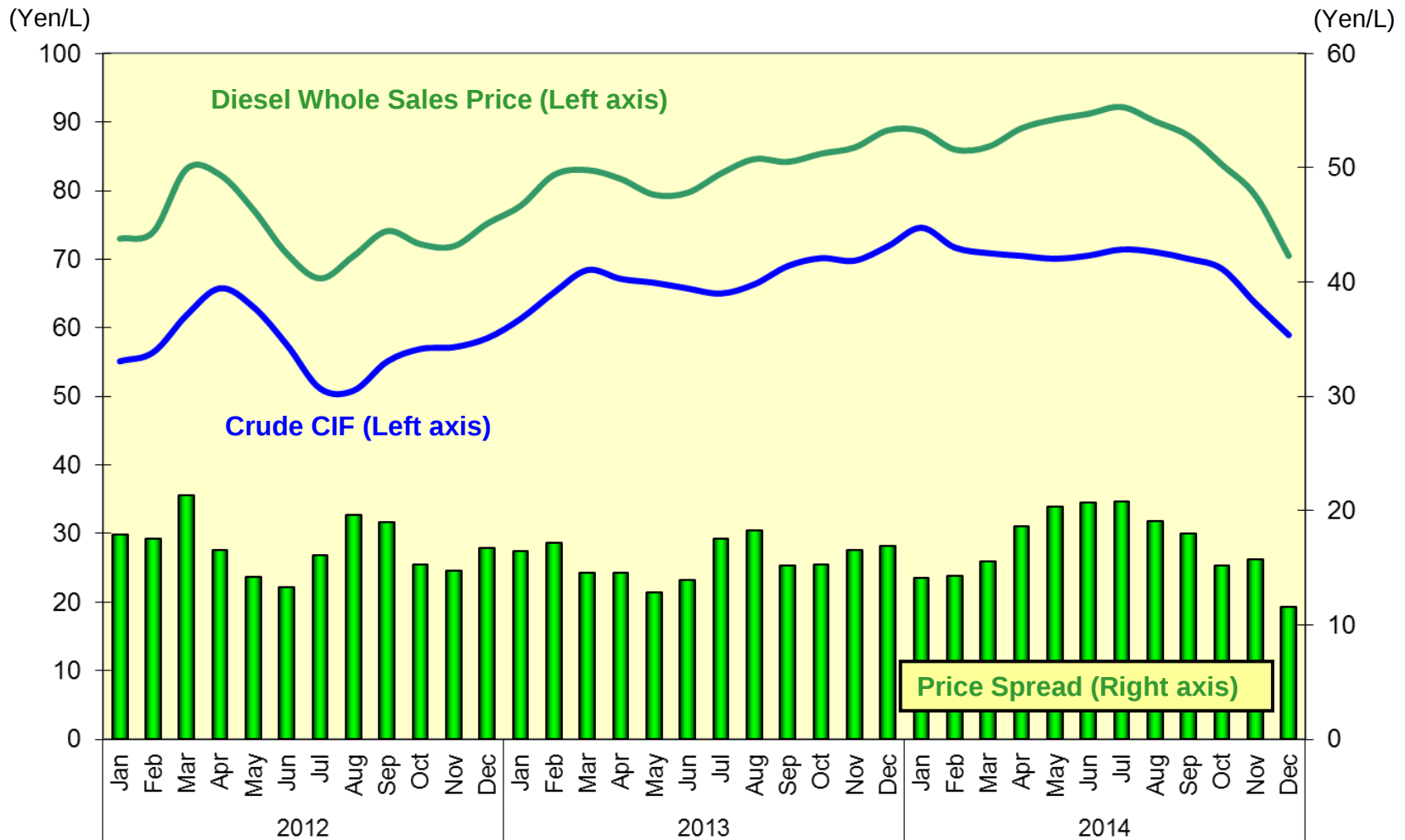
^{*2} Impact to operating income on annual basis rounded to nearest billion yen subject to change in sales volume

Price Spread (Gasoline Wholesale Price vs. Crude CIF)



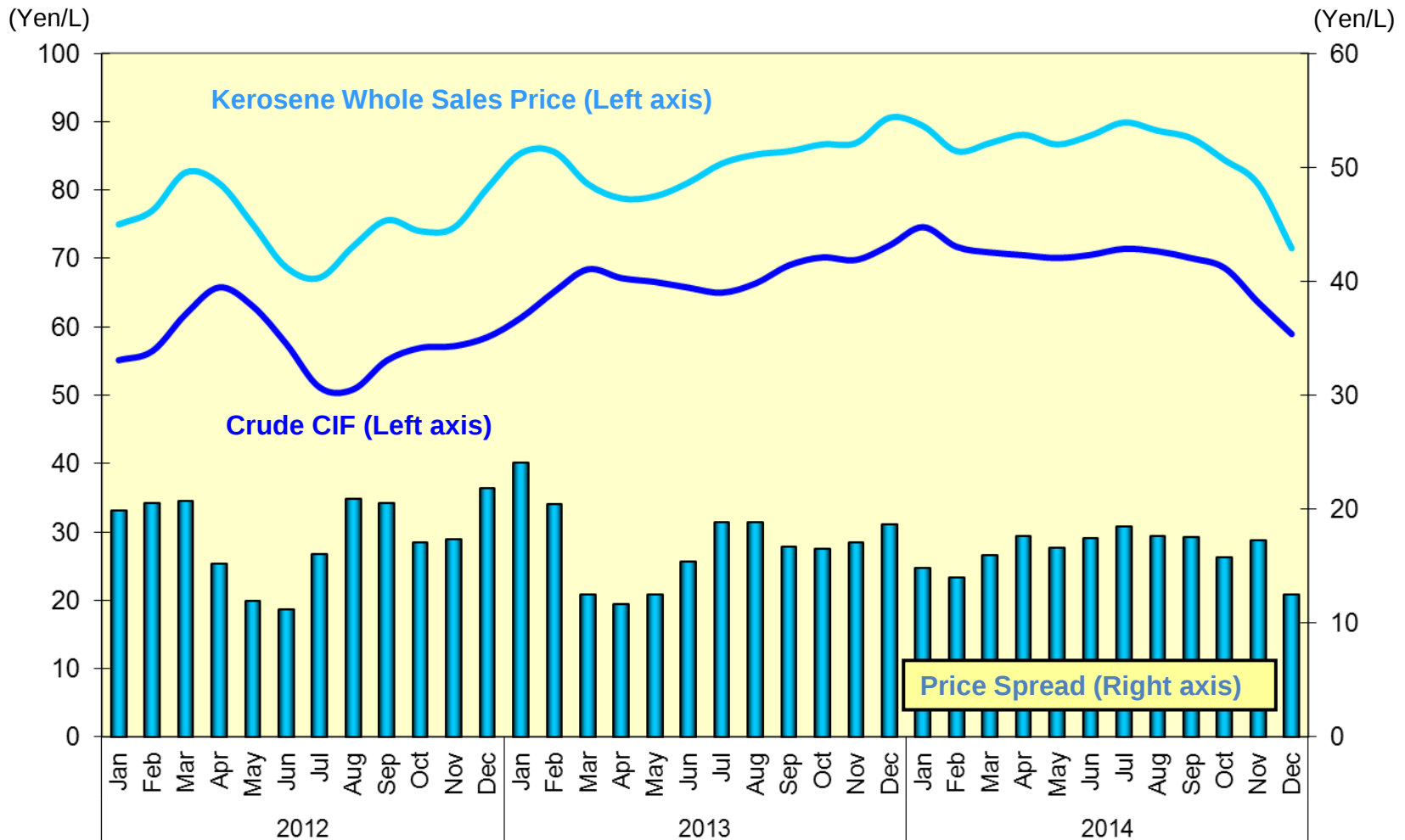
Source: PAJ and The Oil Information Center

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 – 2014)

2014

(Unit: billion yen)

Breakdown of Operating Income	1Q14	2Q14	3Q14	4Q14	FY2014	1H14	3Q14YTD
Oil segment (Substantial)	-17.3	0.6	17.6	16.7	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
Total	-13.6	-2.8	9.5	-66.0	-72.9	-16.4	-6.9

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
Total	42.7	-11.8	18.6	2.8	52.3	30.9	49.5

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
Total	30.4	-44.8	21.3	20.4	27.3	-14.4	6.9