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***Press Release***

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# TonenGeneral Earnings Results For Full Year 2005

TonenGeneral Sekiyu K.K. announces today its consolidated and parent earnings for full year 2005 (January 1-December 31, 2005).

## 1. Industry Conditions

**Petroleum Product Market Trend**

The spot price for Dubai crude oil started at 34 dollars per barrel at the beginning of this year and rose dramatically, hitting a peak of 59 dollars per barrel in September. Later, it showed a moderate downward trend toward the end of the year, ending at 53 dollars per barrel. The 2005 average for the year of 49.3 dollars per barrel was about 15.7 dollars per barrel, or 47%, higher than that of last year. The average U.S. dollar-yen exchange rate for the year was around 111.2 yen per dollar or about 2.0 yen higher than that of 2004. The annual average of crude oil cost in yen per liter terms was 34.5 yen per liter, about 11.4 yen (49%) per liter higher than the average price in 2004. Domestic retail market prices for major products such as gasoline, kerosene and diesel in this year showed a firm trend. However, with the exception for kerosene prices at the end of December, petroleum products price trended lower in the fourth quarter and margins for these products were lower than the previous term.

**Industrial Demand**

Demand for petroleum products in the domestic market showed a 0.4% increase over the previous year. For gasoline, there was a slight increase in demand of 0.6% over the previous year even though there was a high demand during the hot summer of 2004. Demand for kerosene showed a 7.6% increase over the previous year due to colder winter impacts in the first and fourth quarters of the year. Diesel demand declined 1.9% over the previous year. Fuel Oil A demand decreased 1.9% over the previous year due to conversion by consumers to other energy sources due to soaring oil prices. Demand for Fuel Oil C declined 1.9% over the previous year as nuclear plants restarted, coupled with lower power demand in the summer versus the hot summer of 2004.

**Petrochemical Product Demand**

Basic chemical production in Japan continued to increase, mainly due to continuing strong demand in China. Japanese ethylene production was the second highest in history, next to 1999, and paraxylene production broke the historical high record of 2004. On the other hand, the Asian spot market price for these products fluctuated widely, reflecting both the start-up of plants in China and the Middle East and inventory adjustments by Chinese buyers. The ethylene spot price in particular showed a down trend from the second quarter of last year, and benzene prices declined from the third quarter. Specifically Asian spot market prices in US dollar terms for petrochemicals varied based on the supply and demand of respective products, with ethylene and benzene falling 3% and 0.9%, respectively, while paraxylene and propylene increased 13% and 16%, respectively, compared to the previous year. Against this market price fluctuation, industry margins for petrochemical products in 2005 remained high in comparison with historical margin levels.

## 2. Financial Results for 2005 (12 months)

**Consolidated:**

(Unit: billion yen)

| | Sales Revenue | Operating Income/Loss | Ordinary Income/Loss | Net Income/Loss |
|---|---|---|---|---|
| **Jan – Dec 2005 (A)** | 2,856.2 | 20.0 | 22.8 | 13.0 |
| **Jan – Dec 2004 (B)** | 2,342.3 | 63.2 | 68.6 | 48.2 |
| **Difference (A-B)** | 513.9 | -43.2 | -45.8 | -35.2 |
| **Increase/Decrease (%)** | 22 | -68 | -67 | -73 |

**Sales Revenue**

Sales revenue increased by 22% to 2,856 billion yen, mainly due to elevated product selling prices following the rise in crude oil price, in addition to sales volume increases in major petroleum products versus last year.

**Operating Income**

Operating income decreased by 43.2 billion yen to 20 billion yen due in particular to the following:

1) Reduced petroleum product margins

Prices of refined petroleum products did not rise sufficiently to recover material cost increase, and therefore petroleum product margins narrowed significantly.

In particular, TonenGeneral accounts for purchased crude when it is loaded, whereas most of industry accounts for crude when it arrives in Japan, so that crude price changes affect our results approximately one month earlier than industry. Therefore, the full effects of the extreme crude price increases seen in 2005 are reflected in our financial results in the period. This adverse effect on a Dubai basis versus the accounting method of industry is estimated at about 43 billion yen in 2005. In addition, the price of light crude oil, our main feed stock, remained high in 2005, resulting in adverse margin effects.

2) Increased margins for petrochemical products

Reflecting continuously strong demand, margins for petrochemical products such as olefin and paraxylene maintained a high level compared with past trends. There were also steady increases in sales volumes.

3) Operating cost reduction

Operating cost reduction continued with lower pension expenses and lower personnel costs, as well as other efficiencies such as reduced rent costs from the consolidation of our Tokyo head offices.

4) Inventory valuation effects

TonenGeneral applies the LIFO/LOCOM method for inventory evaluation. Operating income includes inventory valuation gains of 23.2 billion yen, versus 1.1 billion yen of negative inventory effects in the previous year. These inventory valuation effects do not affect our cash earnings.

**Net Income**

Net non-operating income was 2.8 billion yen, which included equity earnings of affiliates and foreign exchange gains. Ordinary income amounted to 22.8 billion yen, a 45.8 billion yen decrease over the previous year. Extraordinary items produced a net extraordinary loss of 2.4 billion yen, the main elements of which included costs of an early retirement program for employees, the negative impact from asset-impairment accounting, and gains on sales of investment securities. As a result, net income amounted to 13 billion yen, 35.2 billion yen lower than the previous year.

Memo

**Parent:**

(Unit: billion yen)

| | Sales Revenue | Operating Income/Loss | Ordinary Income/Loss | Net Income/Loss |
|---|---|---|---|---|
| **Jan – Dec 2005 (A)** | 2,800.9 | -1.4 | 7.1 | 4.1 |
| **Jan – Dec 2004 (B)** | 2,370.5 | 42.5 | 52.3 | 40.5 |
| **Difference (A-B)** | 430.4 | -43.9 | -45.2 | -36.4 |
| **Increase/Decrease (%)** | 18 | - | -87 | -90 |

## 3. TonenGeneral Corporate Initiatives

All operational activities, including manufacturing, sales and operating expense reductions, were at or better than plan.

**Refining/Supply**

In refining, our long-term focus has been on raising efficiency and optimizing equipment configuration. To enhance our facilities, we plan to invest more than 25 billion yen over the next few years, over and above the levels of our usual annual investment programs. In view of regulatory requirements for gasoline and diesel fuel quality and structural changes in demand, we are constructing facilities to enable us greater flexibility in use of feedstocks and in operating modes to respond to any market changes, in order to achieve more flexible, lower-cost production.

In addition, TonenGeneral has implemented several Profit Improvement Programs aimed at achieving the ability to secure reasonable financial results even under severe market conditions. These programs include diversification of our crude oil procurement to include non-Middle East sources such as West Africa, processing crude oils whose specifications lead to price discounts, and introduction of a “Molecular Management Program” (a sophisticated production optimization system) that is a standard worldwide tool for the ExxonMobil Group. In addition, we are realizing greater production value by actively trading products and semi-finished products with other ExxonMobil Group refineries in the Asia-Pacific region, the U.S. West Coast and Europe. Effective use of ExxonMobil’s global information network has also made it possible to take advantage of economic incentives to export to third party buyers.

**Marketing**

TonenGeneral is offering customers superior service and convenience of a powerful nation-wide network through one integrated marketing strategy for its General brand and the Esso and Mobil brands of the ExxonMobil Japan Group. TonenGeneral continued to enhance the development of self-serve stations as a member of the ExxonMobil Japan Group, maintaining the top position in the industry.

Four years after its introduction, the branded self-serve site “Express”, with its “quick and easy” brand concept, has expanded to 565 sites nationwide within the ExxonMobil Japan Group. For differentiation and sales promotion at “Express”, TonenGeneral and the ExxonMobil Japan Group are introducing new technology in response to customer needs in a continuous effort to gain even greater customer satisfaction. One example is Speedpass, an innovative payment system that employs our unique technology. Furthermore, in November 2004, we started delivery of Express Video Pump with liquid crystal display and speaker, which allows quick and easy operation for customers. At the end of 2005, Speedpass members numbered more than 730,000 and 170 Express sites had introduced the Express Video Pump.

In addition, in 2004 EMYK and Seven-Eleven Japan Co., Ltd. jointly started pilot tests of combined “Express” sites and convenience stores and are currently operating five pilot sites. If the pilots are successful, the alliance is expected to be rolled out on a nationwide basis.

**Chemicals**

Our chemicals strategy has been to concentrate on our core businesses and to enhance chemical and refinery integration to improve business efficiency. Divestment of our non-core businesses was essentially complete in 2004, and we have initiated new strategies for the growth of our specialty business segments since that time. In the specialty business area, we decided in 2004 to install two new production lines for our microporous flim lithium ion battery separator to satisfy very strong demand and high growth. Construction has been progressing and the new lines are expected to be in operation early in 2006. To enhance our specialty chemicals adhesive business and to improve its business efficiency, our 100% subsidiary, Tonen Kagaku K.K., acquired all the shares of its former 50% subsidiary Tonex, which then merged into Tonen Kagaku K.K. This merger was completed last August. Chemical and refinery integration has progressed in 2005 through further chemical plant and refinery optimization, maximum utilization of molecules and diversification of Steam Cracker and Aromatics feedstock.

## 4. Dividend Plan

The company projects a payment to its shareholders as of December 31, 2005, of 18.5 yen per share as a final dividend for the term ended December 2005, subject to the decision of the general meeting of the shareholders.

## 5. 2006 Year-end Results (projected)

**Consolidated:**

(Unit: billion yen)

| | Sales Revenue | Operating Income/Loss | Ordinary Income/Loss | Net Income/Loss |
|---|---|---|---|---|
| **Consolidated** | 3,080.0 | 40.0 | 41.0 | 25.0 |
| **Parent** | 3,030.0 | 27.0 | 52.0 | 40.0 |

Consolidated operating income for 2006 is expected to increase 20 billion yen over 2005 to 40 billion yen. This estimate assumes a zero effect of inventory valuation on profits. TonenGeneral does not provide crude price projections; our earnings forecasts are instead based principally on margin assumptions. Petroleum product margins are almost same as 2005 actual. One factor in this projection is the assumption that crude price movements will be more moderate than in 2005. We assume no benefit or further adverse effect from the crude lead/lag effect, discussed above. With spot price fluctuations reflecting enhancement of facilities in Asia and the Middle East, a slight decrease in petrochemicals margins is expected. We are projecting continuing reductions in our operating costs in all aspects of our business.

## 6. Dividend Forecast

Our basic policy is to deliver appropriate dividends to shareholders, while maintaining a sound financial structure and giving due consideration to consolidated cash flow trends and future capital investments. We continue with our view of financial management that cash flow that cannot be employed in a way that meets our rigorous investment standards should be returned to shareholders.

Full year dividends for 2006 are expected to increase 0.5 yen/share to 37 yen/share, subject to review of our full year business performance and cash flow results and the endorsement of both our Board of Directors and shareholders.

- **Annual per/share dividends**

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| 34 yen | 36 yen | 36 yen | 36 yen | 36.5 yen | 37 yen (projected) |