August 14, 2008

Press Release

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TonenGeneral Sekiyu Interim Earnings Results for the First Half 2008

TonenGeneral Sekiyu K.K. today announces its earnings for the first half of 2008 (January 1-June 30, 2008).

1. Consolidated financial results for January 1-June 30, 2008

(Unit: billion yen)

	Sales Revenue	Operating Income/Loss	Ordinary Income/Loss	Net Income/Loss
Jan-June 2008 (A)	1,692.6	▲2.3	3.8	5.9
Jan-June 2007 (B)	1,405.4	26.4	28.4	17.1
Difference (A-B)	287.2	▲28.8	▲24.6	▲11.2
Increase/Decrease	20.4%	-	▲86.7%	▲65.8%

Sales Revenue

Consolidated sales revenue rose 287.2 billion yen to 1,692.6 billion yen versus the same period last year. The sales revenue increase was mostly due to product price increases. Domestic sales volumes declined reflecting the general demand trend, partly offset by increases in exports.

Operating Income

Consolidated operating income for the first half of 2008 was -2.3 billion yen, a decrease of 28.8 billion yen versus the same period last year. Factors affecting earnings in each segment are as follows:

Oil segment

Operating income in our oil segment decreased 12.5 billion yen versus the same period last year, resulting in an operating loss of 20.3 billion yen for the first half of 2008. The following key factors affected the change in oil segment earnings:

- For accounting purposes, TonenGeneral Sekiyu recognizes crude oil price in its cost of goods when our crude is purchased at load port, whereas other Japanese oil companies account for crude cost when it arrives in Japan, so that crude price changes affect our accounting results approximately one month earlier than other industry participants. For this reason, crude price increases during the first half of 2008 are fully reflected in our first half results. With significant crude price hikes in the January-June period (the Dubai crude oil FOB spot price increased from 85.6 dollars to 127.8 dollars per barrel), we estimate that this difference adversely affected our results by about 49 billion yen versus the other oil companies' accounting methods. This adverse effect was 26 billion yen greater than in the first half of 2007.
- Effects on operating income from the realization of latent inventory gains related to our sale of Nansei Sekiyu Kabushiki Kaisha stock, as previously announced, are estimated to be positive 11 billion yen.
- Inventory volume fluctuations had a positive effect on earnings of 19.6 billion yen in the first half 2008, 0.2 billion yen less than in the same period last year. These effects include inventory valuation gains resulting from application of the LIFO inventory method (due primarily to reductions in crude and kerosene inventory volumes in the period), as well as increased costs due to inventory buildup when crude prices rose significantly in the second quarter.

Aside from the effect of the factors described above, oil segment earnings were about 3 billion yen greater than the same period last year.

Chemicals segment

Earnings in our chemicals segment decreased 16.4 billion yen versus the same period last year to 17.9 billion yen. Sales of chemical products in the first half of 2008 increased versus first half 2007, when we conducted turnarounds in our chemical plants. The increase in the cost of materials due to rising crude prices exceeded the increase in chemical product prices, resulting in significantly decreased margins, especially for paraxylene and other aromatics.

Ordinary Income

Net non-operating income was 6.1 billion yen, an increase of 4.1 billion yen versus the same period last year, principally due to foreign exchange gains. This contributed to an ordinary income of 3.8 billion yen, which was 24.6 billion yen less than the same period last year.

Net Income

Net income was 5.9 billion yen, 11.2 billion yen lower than the same period in 2007.

2. Earnings forecast revision and dividends forecast for full year 2008

Consolidated:

(Unit: billion yen)

	Sales Revenue	Operating Income/Loss	Ordinary Income/Loss	Net Income/Loss
Revised Forecast (A)	3,900.0	18.0	25.0	19.0
Previous Forecast (B)	3,500.0	51.0	52.0	32.0
Difference (A-B)	400.0	▲33.0	▲27.0	▲13.0
Increase/Decrease	11.4%	▲64.7%	▲51.9%	▲40.6%

(B) announced on February 14, 2008

Consolidated operating income for the full year 2008 is forecast to be 18 billion yen, 33 billion yen less than our previous forecast. The major element in the reduction from the prior forecast is the negative difference between our first half actual results and the original forecast for the first half. Projections related to the second half include the following:

- We expect essentially the same second-half margins for petroleum products as announced in our previous forecast in February. Neither our original nor current projections make any assumptions about the effects arising from cost of goods accounting described above.
- We expect some portion of the inventory valuation gains resulting from our application of the LIFO method to reverse by year end.
- Earnings in the petrochemicals segment for the July-December period are expected to be slightly lower than forecast in February, based on the assumption of lower aromatics margins than previously forecast.

There is no change in the original projected full-year dividends forecast of 38 yen per share.

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