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## ***Press Release***

TonenGeneral Sekiyu K.K.  
(Stock Code: 5012 Tokyo Stock Exchange)  
Representative Director, President  
Kazuo Suzuki  
Contact:  
Public Affairs, ExxonMobil Y.K.  
Tel: 03-6713-4400

### **TonenGeneral Sekiyu K.K. Earnings Results for January 1 – December 31, 2008**

TonenGeneral Sekiyu K.K. today announces its consolidated earnings for January 1 – December 31, 2008.

#### **1. Industry Conditions**

The 2008 Japanese economy stagnated in the first half mainly due to the slowing of exports and capital investments in the global economy. The global financial crisis led to a more drastic downturn in the Japanese economic environment toward the end of the year.

The price per barrel for Dubai crude, generally used as a reference price for our industry in the Asia-Pacific region, dropped briefly from the 90-to-99-dollar range around the first of the year to the 80-to-84-dollar range in mid-January, but subsequently increased steadily to an historic high of 140 dollars at the beginning of July. The price then began to drop, falling to 36 dollars by the end of the year. The average price for the year was 94.2 dollars per barrel, an increase of 25.8 dollars (38%) versus the previous year.

The yen appreciation trend gained momentum in the beginning of October, with the yen-US dollar exchange rate (TTS) averaging 104.5 yen per dollar for 2008, about 14.4 yen stronger than the average for 2007. The average Dubai price for 2008, in yen terms, on a loaded basis, was 61.9 yen per liter for 2008, an increase of 10.8 yen (21%) versus 2007.

Domestic retail petroleum product prices (excluding tax) also increased versus the previous year on an average basis, but drastically fluctuating crude prices and the temporary discontinuation of the provisional gasoline tax rate in April, had a heavy impact, making 2008 a turbulent year.

Overall domestic demand for petroleum products in 2008 was lower than the previous year. Gasoline demand decreased, due to higher prices and a reduction in the gasoline-engine car population. Kerosene demand decreased mainly due to higher prices. Sales of heavier products, such as Diesel and Fuel Oil A, declined due to more efficient operations in the transportation sector, fuel switching to other energy sources, and the recession in late 2008. Demand for Fuel Oil C for power generation began to increase in mid-2007 after a nuclear power plant shutdown, and continued to increase in 2008.

Petrochemical demand and production in 2008 were much lower than the previous year, affected by the significant change in the global business economy especially in the second half of 2008. The production of ethylene in Japan in 2008 decreased by 11% compared to the previous year and was at its lowest level since 1995. Paraxylene and benzene production have decreased by 8% and 13% respectively versus the previous year. The global economic recession together with the crude price drop in the second half of 2008 caused sharp declines in the Asian spot market for chemical products. The ethylene spot market price dropped from 1,673 \$/Ton in July to 473 \$/Ton in December. The paraxylene spot market prices dropped from 1,608 \$/Ton in July to 668\$/Ton in December.

## 2. TonenGeneral Sekiyu Consolidated Financial Results for January 1- December 31, 2008

(Unit: million yen)

	Sales Revenue	Operating Income	Ordinary Income	Net Income
<b>Jan-Dec 2008 (A)</b>	3,272,429	121,742	131,290	79,285
<b>Jan-Dec 2007 (B)</b>	3,049,842	7,063	15,073	7,014
<b>Difference (A-B)</b>	222,586	114,678	116,216	72,271
<b>Increase/Decrease</b>	7.3%	—	771.0%	—

### Sales Revenue

Consolidated Sales Revenue for 2008 increased 7.3% from the previous year, to 3,272.4 billion yen. The increase relates to higher product prices, reflecting crude cost increases, partially offset by lower sales volumes.

### Operating Income

Consolidated Operating Income was 121.7 billion yen, an increase of 114.7 billion yen versus the previous year. Below are the main items relating to the results:

#### (1) Oil Segment

Oil segment operating income was 107.7 billion yen, an increase of 156.3 billion yen from the previous year.

The TonenGeneral group applies the LIFO/LOCOM method for inventory evaluation, and the Operating Income for 2008 includes profit from inventory-related effects of 14.1 billion yen, an increase of 12.9 billion yen from the previous year.

In addition to the profit from inventory-related effects, operating results were favorably affected by the sharp drop in crude oil prices in 2008, especially in the fourth quarter. The TonenGeneral Group recognizes crude costs at the time crude is loaded, about one month earlier than most oil companies in Japan which recognize crude costs upon arrival in Japan. It is estimated that there was a favorable impact of approximately 102 billion yen from this different accounting treatment for full year 2008, whereas there was an unfavorable impact of about 47 billion yen in full year 2007.

#### (2) Chemical Segment

Chemicals segment operating income was 13.9 billion yen, a decrease of 41.7 billion yen from the previous year. The global economic downturn affected the demand for basic chemicals, particularly in the fourth quarter.

#### **Net Income**

Net non-operating Income, mainly affected by gains in foreign exchange, was 9.5 billion yen. Ordinary Income was 131.3 billion yen in 2008, an increase of 116.2 billion yen from the previous year. Extraordinary items resulted in a net gain of 2.4 billion yen in 2008; major elements were losses from asset sales and asset impairment, and a gain from the sale of our shares in Nansei Sekiyu, formerly a consolidated company.

As a result, Net Income amounted to 79.3 billion yen in 2008, 72.3 billion yen higher than the previous year.

### **3. Dividend Plan**

The company projects a payment to its shareholders as of December 31, 2008, of 19 yen per share as a final dividend for the term ended December 31, 2008, subject to the resolution by the general meeting of shareholders.

### **4. Forecast for the Consolidated Earnings Full Year 2009**

(Unit: million yen)

<b>Sales Revenue</b>	<b>Operating Income</b>	<b>Ordinary Income</b>	<b>Net Income</b>
2,300,000	15,000	16,000	9,000

Consolidated operating income for full year 2009 is forecast to decrease by 106.7 billion yen from 2008 to 15 billion yen. Operating income in our Oil segment and Chemical segment are forecast to be 10 billion yen (97.7 billion yen lower than the previous year) and

5 billion yen (8.9 billion yen lower than the previous year), respectively.

As we assume no earnings impacts in 2009 resulting from the effects of inventory related gain/loss or the difference in timing of our crude cost recognition process, our 2009 forecast earnings are substantially lower than 2008 results.

We forecast our Chemical segment earnings to be lower than 2008, as we expect the downturn demand trend that accelerated at the end of 2008 to continue through 2009.

TonenGeneral does not project prices of crude oil or petroleum products; our earnings forecasts are instead based principally on margin assumptions.

## **5. Dividends Policy and 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 adhere to our view that cash flow that is not otherwise required in our business in a way that meets our rigorous investment standards should be returned to shareholders.

Full-year dividends for 2009 are forecast to be 38 yen per share (the same as 2008), subject to review of our full year business performance and cash flow results and the endorsement of both our Board of Directors and shareholders.

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