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Press Release

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TonenGeneral Earnings Results for Full Year 2004

TonenGeneral Sekiyu K.K. announces today its consolidated earnings for January 1 through December 31, 2004.

1. Industry Conditions

Petroleum Product Market Trend

The average Dubai spot price during 2004 was 33.6 dollars per barrel, about 6.8 dollars per barrel higher than that of the previous year. The average U.S. dollar-yen exchange rate for the year was around 109.2 yen per dollar, or about 7.8 yen lower than the 117.0 yen per dollar average in 2003. This stronger yen trend partly absorbed some of the dollar-based crude cost increases. The annual average of crude oil cost in yen per liter terms was 23.1 yen per liter, about 3.4 yen per liter higher than in the same period of last year.

Crude cost increases were passed on in Gasoline, with an average increase in the retail pump prices for the year of about 5.7 yen per liter versus the previous year. As a result, the industry margin for Gasoline was higher than that of last year. However, increases versus the previous year in retail prices for kerosene and diesel were 2.6 yen and 2.9 yen respectively, indicating market conditions that did not complete recovery of crude price increases in the industry margin. (For the purposes of the foregoing, “Industry margin” is defined as the difference between retail prices and the Dubai FOB spot price.) It should be noted that TonenGeneral accounts for crude purchases on a loaded basis, through which our earnings are almost immediately affected by changes in crude oil prices, whereas most of the industry employs an arrival basis which delays the effect of crude price changes on earnings.

Looking at demand for petroleum products in the domestic market, Gasoline managed an increase by 1.9% over the previous year, mainly due to high demand during the hot summer. However, demand for the total of the major five products decreased by 3.7% versus the previous year. Diesel demand, in a continuing multi-year trend, declined by 0.5% from a year ago due to more efficient operation in the transportation sector. Kerosene (-8.0%) and Fuel Oil A (-2.6%) demand experienced continued reduction due to warmer winter impacts in the first and fourth quarter of the year. Demand for Fuel Oil C declined by 14.9% over the previous year, reversing the effects from nuclear plant shutdowns in early 2003.

Due to these demand factors, industry crude runs showed a slight decrease against the previous year.

Petrochemical Product Demand

Petrochemical products such as aromatics and olefins continued their strong trends both in terms of Japanese production and in terms of Asian spot market price, mainly due to strong Chinese demand. Japanese Benzene and Paraxylene production recorded historic highs in 2004. The utilization of ethylene production capacity in Japan reached 99% of effective capacity. Asian spot market prices in US dollars for petrochemical products increased significantly: Benzene +81%, Paraxylene +31%, Ethylene +94%, and Propylene +45 % compared with the last year. The spot price for Naphtha, a key input for petrochemical production, increased by 36%.

2. TonenGeneral Corporate Initiatives

Safety, Health and Environment - Comprehensive Safety Initiatives

As a major supplier of energy products in Japan, TonenGeneral's mission is to offer a supply of products in an environmentally friendly, safe manner, at reasonable prices. Comprehensive initiatives concerning safety, health and the environment are a top priority, and TonenGeneral promotes safe operations with the aim of completely eliminating all kinds of accidents. Due to strengthened training and site management, the accident rate for employees of TonenGeneral and associated companies improved significantly in 2004 to 0.09 injuries per two hundred thousand work hours, the lowest since the merger of Tonen and General Sekiyu in 2000. Under the slogan "Nobody gets hurt!", we will continue working to achieving accident-free workplaces.

Refining & Supply

TonenGeneral group has implemented several Profit Improvement Programs aimed to achieve the ability to secure reasonable financial results even under the severe market conditions. Those programs include diversification of procurement sources to non-middle-east crude oils, reduction in demurrage costs and number of port calls by efficient crude tanker operations, and introduction of a "Molecular Management Program" ("MMP", a sophisticated production optimization system) that is a standard worldwide tool for the ExxonMobil Group. In addition, we have realized greater value for our production by actively trading products and semi-finished products with other ExxonMobil Group refineries in the Asia-Pacific region and the U.S. West Coast.

TonenGeneral has moved ahead with the necessary investments in its Kawasaki, Sakai, and Wakayama refineries to meet new requirements for ultra-low sulfur gasoline and diesel. Moreover, Sakai refinery has pursued a project to reduce energy use and to reduce costs by cooperative energy use among neighboring companies. This is a joint project supported by the Government, under a program in which our Kawasaki refinery previously participated.

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 ExonMobil Japan Group, maintaining the top position in the industry, and is aggressively expanding branded self-serve site "Express". For differentiation and sales promotion at Express, we are expanding our innovative payment system called "Speedpass", and have started delivery of Video Pump with liquid crystal display and speaker, which allows quick and easy operation for customers. Other key initiatives at Express sites are the further expansion of Doutor Coffee Shops network and the newly introduced Mobil 1 Center to provide customers with the opportunity to have quick and easy service for their automobiles using the highest quality lubricant products. In addition, the ExxonMobil Japan Group (with TonenGeneral participation) and Seven-Eleven Japan Co., Ltd. have jointly started pilot tests of "Express" sites and convenience stores at two sites from 2004.

Chemical

Our chemical business strategy has been to concentrate on core business and to enhance chemical and refinery integration to improve business efficiency. In line with this strategy, some non-core businesses were divested in 2004. A Chemical Coordination Department was established to further implement chemical and refinery optimization, including optimum use of molecules across our facilities, and diversification of steam cracker and aromatics feedstock.

In the specialty businesses area, our wholly-owned subsidiary, Tonen Chemical Corporation (“TCC) is making additional investments in production capacity for microporous films, to satisfy very strong demand and high growth. In addition, as of January 1, 2005, TCC acquired 50% of the stock of Tonex Company Ltd. from ExxonMobil Petroleum & Chemical Holdings Inc., at a purchase price reviewed and endorsed through a third-party evaluation process. (Tonex manufactures and sells petroleum resins and raw materials for adhesives.) Tonex is now a wholly owned subsidiary of TCC, reinforcing TCC’s specialty chemicals business. TCC is considering the possibility of ultimately merging Tonex into TCC to capture further cost and organizational efficiencies.

3. Financial Results for 2004 (12 months)

Consolidated:

(Unit: billion yen)

	Sales Revenue	Operating Income/Loss	Ordinary Income/Loss	Net Income/Loss
Jan – Dec 2004 (A)	2,342.3	63.2	68.6	48.2
Jan – Dec 2003 (B)	2,135.3	34.0	38.4	27.7
Difference (A-B)	207.0	29.2	30.2	20.5
Increase/Decrease (%)	10	86	79	74

Sales revenue increased by 10% to 2,342 billion yen, as crude cost increases were partially reflected to the product prices.

Operating income rose by 29.2 billion yen, or by 86%, to 63.2 billion yen. The biggest driver for this was Chemicals where margins improved in almost all petrochemical products, accounting for 19.4 billion yen of the increased profits. The earnings increase was also assisted by a reduction by 10.5 billion yen in operating costs, including lower pension plan costs and lower personnel costs driven by streamlining of organization. In the petroleum oil segment, a slight volume decrease adversely affect earnings by 2.3 billion yen versus 2003, while increases in unit margins, mainly in gasoline, contributed 7.0 billion yen to operating income. (2004 operating income includes total inventory valuation losses of 1.1 billion yen TonenGeneral applies LIFO/LOCOM method for inventory evaluation. These inventory valuation effects do not affect our cash earnings. In the previous accounting period there were 4.3 billion yen of favorable inventory effects.)

Non-operating income was 5.4 billion yen, reflecting foreign exchange gains and a number of other minor items. As a result, ordinary income increased by 79% to 68.6 billion yen.

Extraordinary income was 13.7 billion yen. Gains on sales of investment securities (11.6 billion yen) including the sale of shares of Kygnus Sekiyu K.K. in December, and gains on return of the substitutional (government) portion of the employee pension fund (6.9 billion yen), were partly offset by a charge due to early adoption of asset impairment accounting (3.4 billion yen), costs related to implementation of an early retirement program for our employees (2.4billion yen), a net loss on disposal of fixed assets (1.1 billion yen), etc. Including extraordinary income, net income was 48.2 billion yen, a 74% increase from the previous year.

Parent-own:

(Unit: billion yen)

	Sales Revenue	Operating Income/Loss	Ordinary Income/Loss	Net Income/Loss
Jan – Dec 2004 (A)	2,370.5	42.5	52.3	40.5
Jan – Dec 2003 (B)	2,170.6	27.2	32.7	23.9
Difference (A-B)	199.9	15.4	19.6	16.6
Increase/Decrease (%)	9	57	60	70

4. Financial Results for 4th Quarter 2004 (3 months)

Consolidated:

(Unit: billion yen)

	Sales Revenue	Operating Income/Loss	Ordinary Income/Loss	Net Income/Loss
Oct – Dec 2004 (A)	639.3	25.5	27.5	21.5
Oct – Dec 2003 (B)	553.6	6.4	7.4	6.3
Difference (A-B)	85.8	19.1	20.1	15.2
Increase/Decrease (%)	15	296	273	240

Sales revenue during the 4th quarter of 2004 increased by 15% versus the previous year. This increase reflects, for the most part, the effect of higher crude prices in product selling prices. Operating income in the same period increased to 25.5 billion yen. This was mainly driven by the improvement in petroleum products margins, the continued high demands in chemicals products, and reduction in operating costs. Ordinary income was 27.5 billion yen, an increase by 273% versus 4th quarter 2003. Net income stood at 21.5 billion yen.

5. Dividend

The company projects a payment to its shareholders as of December 31, 2004, of 18 yen per share as a final dividend for the term ended December 2004, subject to the decision of general meeting of the shareholders.

6. 2005 Earnings Forecast (12 months)

(Unit: billion yen)

	Sales Revenue	Operating Income/Loss	Ordinary Income/Loss	Net Income/Loss
Consolidated	2,370.0	65.0	66.0	40.0
Parent-own	2,400.0	47.0	47.0	26.0

Consolidated operating income for full year 2005 is projected at 65.0 billion yen, an increase of 1.8 billion yen from 2004.

This estimate assumes a zero effect of inventory valuation on profits. Other assumptions leading to the forecast include the following: Sales volume in petroleum segment is expected to increase by around 5%, reversing the effect of long refinery turnarounds in 2004. In the Chemical segment, increases in sales volume are expected for Olefin and Aromatics products. Unit margin is expected to slightly decrease in both petroleum and Chemical segments. Operating costs are expected to continue to decline.

7. 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 within a reasonable time in our business in a way that meets our rigorous investment standards should be returned to our shareholders so that they may make their own separate investment decisions. TonenGeneral projects a payment for its shareholders of total dividend of yen 36 per share for 2005, subject to our full-year business performance and cash flow results.

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