

*[The official language for TonenGeneral'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 web site. While these English versions have been prepared in good faith, TonenGeneral does not accept responsibility for the accuracy of the translations, and reference should be made to the original Japanese language materials.]*

## To Shareholders

### Internet Disclosure of the 97th Ordinary General Meeting of Shareholders

The following information is disclosed on the internet website of the Company to the shareholders as the Attachment to the Notice of Ordinary General Meeting of Shareholders pursuant to the Laws of Japan and the Company's Articles of Incorporation.

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TonenGeneral Sekiyu K.K.

## Notes to Consolidated financial statements

### 1. Significant accounting policies

#### (1) Scope of consolidation

##### a) Number of consolidated subsidiaries: 7 companies

EMG Marketing G.K., Tonen Chemical Corporation, TGSH G.K., TonenGeneral Kaiun Y.K.,  
Chuo Sekiyu Hanbai K.K., NUC Corporation, EMG Lubricants G.K.

The Company liquidated MOC Marketing G.K. on March 16, 2016. MOC Marketing G.K. has been excluded from the scope of consolidation from the current period as a result of this.

Furthermore, the Company established EMG Lubricants G.K. on December 15, 2016. EMG Lubricants G.K. has been included from the scope of consolidation from the current period as a result of this.

##### b) Names of major non-consolidated subsidiaries

###### - Name of non-consolidated subsidiaries

TonenGeneral Americas L.L.C., Shimizu LNG Thermal Power Generation G.K.,  
Muroran Biomass Power Generation G.K.

###### - Reason for exclusion from scope of consolidation

The size of each of the non-consolidated subsidiaries is small, and each company's total assets, sales and fiscal year profit (loss) (amount corresponding to equity) and retained earnings (amount corresponding to equity) do not have a material effect on the consolidated financial statements.

#### (2) Application of equity method

##### a. Number of affiliates accounted for by the equity method: 4 companies

Shimizu LNG K.K., Standard Sekiyu Osaka Hatsubaisho Co., Gyxis Corporation,  
Japan Biofuels Supply LLP

Shares held by consolidated subsidiaries of the Company in Kobe Standard Sekiyu K.K. and in Nissei Corporation K.K. were sold on August 31, 2016 and November 30, 2016, respectively. Both companies have been excluded from the scope of entities accounted for using equity method from the current period as a result of this.

##### b. Name of major non-consolidated subsidiaries and non-equity-method companies and reason equity method was not applied

###### 1) Name of major non-consolidated subsidiaries and non-equity-method companies

TonenGeneral Americas L.L.C., Shimizu LNG Thermal Power Generation G.K.,  
Muroran Biomass Power Generation G.K., Emori Sekiyu K.K., Kimura Sekiyu K.K.,  
K.K. Marutaka Sekiyu, Ichihara Thermal Power Generation G.K., TQ Holdings Australia Pty  
Limited

###### 2) Reason equity method was not applied

The affiliates above are not accounted for by the equity method because they do not have a material impact on net profit (loss), retained earnings, etc. on a consolidated basis and the total amount as a whole does not have a material impact to the consolidated financial statements.

c. Notes to the procedures of applying equity method

Reasonable adjustments are made to the most recent available financial statements of companies accounted for by the equity method whose closing dates are not the same as the Company.

(3) Summary of accounting policies

a. Valuation rules and methods for significant assets

1) Securities

Other securities

- Securities with readily determinable fair values

Market value at the closing date (Valuation difference on available-for-sales securities is directly reflected in net assets, and cost of sales is calculated using the moving-average method)

- Securities without readily determinable fair values

The moving-average cost method

2) Derivatives transactions

Market value at the closing date

3) Inventories

Generally the lower of acquisition costs determined by the weighted average cost method or their net realizable value

b. Depreciation and amortization of significant noncurrent assets

1) Property, plant and equipment (excluding leased assets)

Generally the declining-balance method

As mentioned in “2. Change in accounting policies” - Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016, the Company has applied the straight line method for facilities attached to buildings and structures acquired on and after April 1, 2016.

The service life ranges by major assets are:

Buildings and structures: 10 to 50 years

Tanks: 10 to 25 years

Machinery, equipment and vehicles: 7 to 15 years

2) Intangible assets (excluding leased assets)

The straight-line method

In-house computer software is amortized over its service life (5 to 15 years) using the straight-line method.

3) Leased assets

The straight-line method is employed, where the leasing period is deemed as the service life and residual value is set as zero. The accounting treatment for finance lease transactions that do not transfer ownership to the lessee and became effective on or before December 31, 2008 is calculated pursuant to the method applied to ordinary operating lease transactions.

c. Basis for significant provisions

1) Allowance for doubtful accounts

To provide for losses due to bad debt, the Company and its consolidated subsidiaries reserve an estimated bad debt allowance on ordinary receivables based on historical bad debt ratios, and on

highly doubtful receivables based on the recoverability from individual customers.

2) Provision for bonuses

To provide for the payment of employees' bonuses, the Company and its consolidated subsidiaries accrue an estimated reserve for the period.

3) Provision for repairs

To provide for periodic tank inspections required under the Fire Service Act and for periodic repairs of machinery and equipment, the Company and its consolidated subsidiaries reserve an estimated cost for the current period, based on actual payments and repair plans, respectively.

d. Accounting method related to retirement benefits

1) Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, the straight-line basis is adopted as the method of attributing expected retirement benefits to the period up to the end of the current period.

2) Method of amortizing actuarial difference, and the past service liabilities

Actuarial differences are generally amortized into pension expenses beginning with the next period, using the declining-balance method over a period determined based on employees' average remaining service years (12 years). Past service liabilities are amortized into pension expenses using the straight-line method over employees' average remaining service years (11.0 to 12.9 years).

Unrecognized actuarial gains and losses, and unrecognized prior service cost are included in accumulated other comprehensive income after adjusting deferred tax.

e. Other important items for consolidated financial statements

1) Principal methods of hedge accounting

- Method of hedge accounting

Exceptional treatment permitting the effects of the interest rate swaps to be netted against the underlying interest expense of the loans payable subject to the swap agreement is adopted for the swap agreements that satisfy the requirements for exceptional treatment.

- Hedging instrument and hedged item

Hedging instrument: Interest rate swap

Hedged item: Interest on loans payable

- Hedging policy

Upon the completion of internal approval procedures prescribed by the Company, interest rate swaps are carried out to convert floating interest rates associated with certain loans payable to fixed interest rates.

- Method of evaluating hedge effectiveness

Hedge effectiveness of interest rate swaps is not evaluated because they are accounted for with exceptional treatment.

2) Amortization method and period of goodwill

Goodwill is amortized by the straight-line method over 20 years.

3) Accounting method for consumption taxes

Each item in the consolidated statement of income does not include consumption taxes.

## 2. Change in accounting policies

### - Application of Accounting Standard for Business Combinations, etc.

The Company has adopted the “Accounting Standard for Business Combinations” (The Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) and so forth effective from this period. Changes in ownership interests in subsidiaries remaining under the control of the Company are accounted to capital surplus and acquisition related costs are expensed in the incurred year’s consolidated financial statements. For a business combination carried out on and after the beginning of this period, revisions for its purchase price allocation as a result of finalizing provisional accounting treatment is reflected in the financial statements for this period when the business combination is created. In addition, changes in presentation for profit and so on, and presentation from minority interests to non-controlling interests are implemented. In order to reflect these changes in presentation, reclassification has been made for the consolidated financial statements in the fiscal year 2015.

Application of Accounting Standard for Business Combinations, etc. have been adopted from the beginning of this period in accordance with transitional measures provided in Paragraph 58-2 (4) of the Accounting Standards for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures.

The effect of this change on the financial statements is immaterial.

### - Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016

Following the revision to the Corporation Tax Act, the Company has applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) from the second quarter 2016 period, and changed the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining balance method to the straight line method.

The effect of this change on the financial statements is immaterial.

## 3. Consolidated balance sheet

### (1) Mortgaged assets

Mortgaged assets and mortgaged liabilities by security rights are as shown below;

Mortgaged assets	Balance sheet amounts (Million yen)	(Provided as plant mortgage) (Million yen)
Buildings and structures	3,340	(3,340)
Tanks	2,573	(2,573)
Machinery, equipment and vehicles	4,565	(4,565)
Land	12,203	(4,628)
Total	22,683	(15,108)

Mortgaged liabilities by security rights	Amounts (Million yen)	(Covered by plant mortgage) (Million yen)
Gasoline taxes payable	81,220	(15,108)

- (Note) 1. The balance sheet amounts of mortgaged assets include the mortgages provided as plant mortgage as shown in parentheses.  
2. The amounts of mortgaged liabilities include the liabilities covered by plant mortgages as shown in parentheses.

(2) Accumulated depreciation of property, plant and equipment 984,933 million yen

(3) Obligations for guarantees

a. Bank borrowing, etc.

Guarantees	Amounts
Japan Biofuels Supply LLP	3,587 million yen
Employees of the Company and consolidated subsidiaries	96 million yen
Total	3,683 million yen

b. Letters of credit

Guarantees	Amounts
Japan Biofuels Supply LLP	14,562 thousand USD
	(1,696 million yen)

c. Deferral of import consumption tax payment

Guarantees	Amounts
Japan Biofuels Supply LLP	360 million yen

d. Land lease contracts

Guarantees	Amounts
TQ Holdings Australia Pty Limited	2,500 thousand AUD
	(210 million yen)

e. Purchases of products

Guarantees	Amounts
Petro National Pty Limited	2,250 thousand AUD
	(189 million yen)

#### 4. Consolidated statement of changes in net assets

##### (1) Class and number of shares issued as of December 31, 2016

Common stock 366,000,000 shares

(Note) On February 29, 2016, the Company canceled 199,182,000 treasury shares on the resolution of the Board of Directors of the Company held on February 12, 2016. After the cancelation, the Company has a total of 366,000,000 shares issued.

##### (2) Dividends in the current period

Resolution	Class of shares	Total dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 25, 2016	Common stock	6,920	19.00	December 31, 2015	March 28, 2016
Board of Directors Meeting held on August 12, 2016	Common stock	6,920	19.00	June 30, 2016	September 12, 2016

##### (3) Planned resolution at Ordinary General Meeting of Shareholders on March 24, 2017

Planned resolution	Class of shares	Dividend resource	Total dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 24, 2017	Common stock	Retained earnings	10,383	28.50	December 31, 2016	March 27, 2017

(Note) Special dividend 9.50 yen per share is included in "Dividend per share".

##### (4) Class and number of stock acquisition rights as of December 31, 2016 (Except for those rights whose first date of exercise period has not come.)

Resolution date	April 24, 2013	April 24, 2014
Number of stock acquisition rights	100 rights	105 rights
Class of shares	Common stock	Common stock
Number of shares	10,000 shares	10,500 shares

#### 5. Financial instruments

##### (1) Detail of financial instruments

The Company and its subsidiaries and affiliated companies ("TG group companies") finance their working capital and capital investment through a combination of internally generated funds, external borrowing with banks and other financial institutions, and issuance of corporate bonds and commercial papers.

Trade accounts receivable are exposed to credit risk but TG group companies mitigate the risk in accordance with consistent guidelines. Part of trade accounts receivable are denominated in foreign currencies, but the risk of foreign currency rate fluctuations is hedged with forward exchange contracts.

Investment securities are limited to stock of companies with which TG group companies have a business relationship. Part of these stock investments is exposed to the risk of market stock price fluctuations.

Trade accounts payable outstanding are largely due within six months. Also trade accounts payable resulting from import transactions including crude oil import are exposed to the risk of foreign currency rate fluctuations but the risk has been mitigated through the use of forward exchange contracts.

Loans payable result from external loans with financial institutions including banks and the issuance of

corporate bonds and commercial papers. The interest rate of such financing, except for fixed rate long-term loans payable and bonds payable, is in part determined with market reference rates and therefore the variable interest rate loans are exposed to the risk of interest fluctuations.

Derivative transactions are conducted mainly for the above-mentioned foreign exchange contracts and interest rate swaps. In addition, crude oil related derivatives are used to adjust pricing basis between regional crude market, etc., for the purpose of hedging risk of crude price fluctuations. The Company Group use derivative transactions for limited purpose of hedging risk of existing objectives from market fluctuations. The Company group has no derivative transaction for speculative purposes which is strictly prohibited under the Company's guidelines.

(2) Fair value of financial instruments

The balance sheet amounts and fair values and the difference as of December 31, 2016 thereof are shown below.

(Unit: Million yen)

	Amounts recorded in the consolidated balance sheet	Fair value	Difference
1) Cash and deposits	99,999	99,999	—
2) Note and accounts receivable-trade (*1)	200,443	200,443	—
3) Income taxes receivable	1,550	1,550	—
4) Investment securities			
-Other securities	6,168	6,168	—
Total assets	308,161	308,161	—
5) Note and accounts payable-trade	174,326	174,326	—
6) Gasoline taxes payable	252,725	252,725	—
7) Short-term loans payable	78,989	78,989	—
8) Current portion of bonds	10,000	10,000	—
9) Income taxes payable	10,144	10,144	—
10) Accrued consumption taxes	8,011	8,011	—
11) Guarantee deposits payable	23,612	23,612	—
12) Bonds payable	75,000	76,823	1,823
13) Long-term loans payable	105,962	108,595	2,633
Total liabilities	738,771	743,228	4,456
14) Derivative transactions (*2)	815	815	—

(\*1) The amounts of related allowance for notes and accounts receivable-trade are deducted from the values.

(\*2) The values of assets and liabilities arising from derivative transactions are shown at net value.

Assets:

1) Cash and deposits, 2) Note and accounts receivable-trade and 3) Income taxes receivable

Fair value is deemed the same as book value because these assets are settled within a short period of time and there is little rationale for fair and book values to diverge.



#### 4) Investment securities

Fair value of stocks is based on the prices traded at the stock exchange. Among “Other securities,” securities with a book value of 26,134 million yen are excluded from the above table because there is no ascertainable market value for those securities and it is deemed extremely difficult to calculate their fair value.

#### Liabilities:

5) Note and accounts payable-trade, 6) Gasoline taxes payable, 7) Short-term loans payable, 8) Current portion of bonds, 9) Income taxes payable, 10) Accrued consumption taxes and 11) Guarantee deposits payable

Fair value is deemed the same as book value because these liabilities are settled within a short period of time and there is little rationale for fair and book value to diverge.

#### 12) Bonds payable

Fair value of bonds is based on market price.

#### 13) Long-term loans payable

The fair value of floating rate long-term loan is deemed the same as book value, since there is little rationale for fair and book values to diverge under such floating rate loan arrangement. The fair value of fixed rate long-term loan is estimated using the expected future principal and interest payments discounted at market interest rates for similar new borrowings. The fair value of derivatives that are subject to the special treatment of interest rate swap is calculated based on the value provided by financial institutions and it is included in the fair value of the hedged long-term loan.

#### 14) Derivatives

Fair value is measured based on the actual market exchange rate.

### 6. Investment and rental property

#### (1) Overview of real estate for lease, etc.

The Company and two consolidated subsidiaries lease a part of lands at their refining and manufacturing sites, certain service stations assets and other assets in Japan. In the current period, the net of leasing income and related expense of these transactions are 760 million yen in income (the income is included in net sales and the expense is included in cost of sales or selling, general and administrative expenses); gain/loss on sales and retirement of related assets are a 1,769 million yen gain (included in extraordinary income/loss); and impairment loss of related assets is 192 million yen (included in extraordinary loss).

#### (2) Fair value of real estates for lease, etc.

Balance sheet amount	Fair value
93,222 million yen	103,640 million yen

- (Note)
1. The balance sheet amount is the acquisition cost reduced by the accumulated depreciation and the accumulated impairment loss.
  2. The amounts used for the fair value at the end of the period were mainly amounts determined by the Company based on the “Real Estate Appraisal Standard” (these amounts include adjustments that utilize indices etc.).

7. Financial data per share

(1) Net assets per share:	760.34	yen
(2) Earnings per share:	176.84	yen

8. Significant subsequent events

- Merger of EMG Marketing G. K.

The Company's Board of Directors on November 11, 2016, passed a resolution on an absorption-type merger (the "Merger") with its consolidated subsidiary EMG Marketing G. K. ("EMG Marketing") to take place, with the Company remaining as the surviving company and EMG Marketing to be dissolved and both companies executed an absorption-type merger agreement on the same day. As a result, the Company merged with EMG Marketing as of January 1, 2017.

(1) Objectives of the Merger

The Company has agreed to consummate the Business Integration in order to maximize their enterprise value by combining the business resources of their company groups and carrying out intensive business reforms, considering that the international competition for petroleum and petrochemical product markets in Asia, including Japan, is expected to increase dramatically. After the Business Integration, the two companies aim to establish a strong corporate group under a holding company in order to develop into one of the most prominent and internationally-competitive comprehensive energy, natural resource, and materials company groups in Asia, and to contribute to the development of a sustainable and vigorous economy and society.

On January 1, 2017, prior to the Business Integration, the Company merged with and absorbed EMGM, one of the main subsidiaries within its company group. It is expected that by simplifying the business structure and operations of the Company group prior to the Business Integration, the benefit of such business integration that is scheduled on April 1, 2017 will be more likely to be achieved and will be completed more expediently.

(2) Name of the partner company in the Merger

EMG Marketing Godo Kaisha

(3) Method of the Merger and allotment in relation to the Merger

- Method of the Merger

The Company remains as the surviving company and EMG Marketing Godo Kaisha was dissolved.

- Details of stock allocation for the Merger

The Company allocated and delivered to Mobil Oil Exploration & Producing Southeast Inc., which has 1% ownership of EMGM as of the last time of the day immediately before the day on which the Merger is consummated, 969,696 shares of the Company common stock in lieu of all of their equity interest. The company used a part of its treasury shares for the transaction, and did not issue any new shares.

The number of the Company shares which will be delivered is calculated by the following formula: the value of 1% ownership of EMGM divided by 979.6885 yen, which is the average of closing prices of the Company stock during the most recent three months period prior to November 10, 2016 (prices are rounded to the nearest fourth decimal place).

(4) Details and scale of the main businesses of the partner company in the Merger

- Trade name, address of head office, name of representative, paid-in capital, net assets, total assets, and business

(As of December 31, 2016)

Trade name	EMG Marketing Godo Kaisha
Address of head office	1-8-15, Kohnan, Minato-ku, Tokyo, Japan
Name of representative	Representative TonenGeneral Sekiyu Kabushiki Kaisha Executive Person Takashi Hirose
Paid-in capital	20,000 million yen
Net assets	43,506 million yen
Total assets	276,418 million yen
Business	Sales of petroleum products and related products, management and control division operations

- Net sales, operating income, ordinary income, and profit in the most recent fiscal year

(Unit: Million yen)

Fiscal year	Fiscal year ended December 31, 2016
Net sales	1,161,378 million yen
Operating income	11,615 million yen
Ordinary income	11,340 million yen
Profit	9,896 million yen

(5) Schedules of the Merger

Resolution of the Board of Directors	November 11, 2016
Signing of the Merger agreement	November 11, 2016
Merger date (effective date)	January 1, 2017

9. Others

- Amendment to amount of deferred tax assets and liabilities due to change in corporate income tax rate, etc.

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 13 of 2016) have been promulgated on March 31, 2016. With this amendment, the corporate income tax rates, etc. are to be reduced effective from the fiscal year beginning on and after April 1, 2016. In conjunction with this, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities is changed from the previous rate of 32.3%. The rate is 30.9% for temporary differences expected to be realized in the fiscal years beginning on January 1, 2017 and beginning on January 2018, and 30.6% for temporary differences expected to be realized in the fiscal years beginning on and after January 1, 2019.

As a result, deferred tax assets (after deducting deferred tax liabilities) decreased by 1,728 million yen, capital surplus decreased by 54 million yen, income taxes - deferred increased by 1,259 million yen, profit attributable to non-controlling interests increased by 2 million yen, valuation difference on available-for-sale securities increased by 28 million yen, remeasurements of defined benefit plans increased by 441 million yen, and non-controlling interests increased by 1 million yen.

Moreover, the system of deduction for losses carried forward has been revised. The limit of deduction from taxable income applicable to losses carried forward is amount equivalent to 60% of the income

before loss carried forward effective from the fiscal year beginning on January 1, 2017, 55% effective from the fiscal year beginning on January 1, 2018 and 50% effective from the fiscal years beginning on and after January 1, 2019. As a result, deferred tax assets (after deducting deferred tax liabilities) decreased by 479 million yen, capital surplus decreased by 17 million yen, and income taxes - deferred increased by 461 million yen.

10. Monetary unit used for reporting

Amounts are shown in truncated millions of yen.

## Notes to Non-consolidated financial statements

### 1. Significant accounting policies

#### (1) Valuation rules and methods for assets

##### a. Securities

###### 1) Stock of subsidiaries and affiliates

The moving-average cost method

###### 2) Other securities

- Securities with readily determinable fair values

Market value at the closing date (Valuation difference on available-for-sales securities is directly reflected in net assets, and cost of sales is calculated using the moving-average method)

- Securities without readily determinable fair values

The moving-average cost method

##### b. Derivatives transactions

Market value at the closing date

##### c. Inventories

Generally the lower of acquisition costs determined by the weighted average cost method or their net realizable value

#### (2) Depreciation and amortization method for noncurrent assets

##### a. Property, plant and equipment (excluding leased assets)

Generally the declining-balance method

As mentioned in “2. Change in accounting policies” - Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016, the Company has applied the straight line method for facilities attached to buildings and structures acquired on and after April 1, 2016.

The service life ranges by major assets are:

Buildings and structures: 10 to 50 years

Tanks: 10 to 25 years

Machinery, equipment and vehicles: 7 to 15 years

##### b. Intangible assets (excluding leased assets)

The straight-line method

In-house computer software is amortized over its service life (5 to 15 years) using the straight-line method.

##### c. Leased assets

The straight-line method is employed, where the leasing period is deemed as the service life and residual value is set as zero. The accounting treatment for finance lease transactions that do not transfer ownership to the lessee and became effective on or before December 31, 2008 is calculated pursuant to the method applied to ordinary operating lease transactions.

#### (3) Basis for provisions

##### a. Allowance for doubtful accounts

To provide for losses due to bad debt, the Company reserves an estimated bad debt allowance on ordinary receivables based on historical bad debt ratios, and on highly doubtful receivables based on the

recoverability from individual customers.

b. Provision for bonuses

To provide for the payment of employees' bonuses, the Company accrues an estimated reserve for the period.

c. Provision for retirement benefits

To provide for the payment of employees' post-retirement benefits, the Company accrues an estimated reserve based on the projected benefit obligations and estimated pension plan assets as of the closing date. Any differences in actuarial calculations of retirement benefits are amortized beginning with the next period, using the declining-balance method over a period determined based on employees' average remaining service years (12 years). Prior service liabilities are amortized using the straight-line method over employees' average remaining service years (11.9 to 12.9 years).

d. Provision for repairs

To provide for periodic tank inspections required under the Fire Service Act and for periodic repairs of machinery and equipment, the Company reserves an estimated reserve for the period, based on actual payments and repair plans.

(4) Other important items for financial statements

a. Principal methods of hedge accounting

1) Method of hedge accounting

Exceptional treatment permitting the effects of the interest rate swaps to be netted against the underlying interest expense of the loans payable subject to the swap agreement is adopted for the swap agreements that satisfy the requirements for exceptional treatment.

2) Hedging instrument and hedged item

Hedging instrument: Interest rate swap

Hedged item: Interest on loans payable

3) Hedging policy

Upon the completion of internal approval procedures prescribed by the Company, interest rate swaps are carried out to convert floating interest rates associated with certain loans payable to fixed interest rates.

4) Method of evaluating hedge effectiveness

Hedge effectiveness of interest rate swaps is not evaluated because they are accounted for with exceptional treatment.

b. Amortization method and period of goodwill

Goodwill is amortized by the straight-line method over five years.

c. Accounting method for consumption taxes

Each item in the statement of income does not include consumption taxes.

2. Change in accounting policies

- Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016

Following the revision to the Corporation Tax Act, the Company has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the second quarter 2016 period, and changed the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining balance method to the straight line method.

The effect of this change on the financial statements is immaterial.

### 3. Balance sheet

#### (1) Mortgaged assets

Mortgaged assets and mortgaged liabilities by security rights are as shown below;

Mortgaged assets	Balance sheet amounts (Million yen)	(Provided as plant mortgage) (Million yen)
Buildings	1,195	(1,195)
Structures	2,145	(2,145)
Tanks	2,573	(2,573)
Machinery, equipment	4,565	(4,565)
Land	12,203	(4,628)
Total	22,683	(15,108)

  

Mortgaged liabilities by security rights	Amounts (Million yen)	(Covered by plant mortgage) (Million yen)
Gasoline taxes payable	81,220	(15,108)

- (Note) 1. The balance sheet amounts of mortgaged assets include the mortgages provided as plant mortgage as shown in parentheses.  
2. The amounts of mortgaged liabilities include the liabilities covered by plant mortgages as shown in parentheses.

(2) Accumulated depreciation of property, plant and equipment 771,193 million yen

#### (3) Obligations for guarantees

##### a. Bank borrowing, etc.

Guarantees	Amounts
Japan Biofuels Supply LLP	3,587 million yen
Employees of the Company	69 million yen
Total	3,656 million yen

##### b. Letters of credit

Guarantees	Amounts
Japan Biofuels Supply LLP	14,562 thousand USD (1,696 million yen)

##### c. Deferral of import consumption tax payment

Guarantees	Amounts
Japan Biofuels Supply LLP	360 million yen

##### d. Land lease contracts

Guarantees	Amounts
TQ Holdings Australia Pty Limited	2,500 thousand AUD (210 million yen)

e. Purchases of products

Guarantees	Amounts
Petro National Pty Limited	2,250 thousand AUD
	(189 million yen)

(4) Details of receivable from and payable to associated companies

Receivable

Accounts receivable-trade	155,509 million yen
Short-term loans receivable	9,150
Accounts receivable-other	1,965

Payable

Accounts payable-trade	32,793 million yen
Short-term loans payable	84,980
Accounts payable-other	3,481

(5) Details of payable to directors and statutory auditors

Payable

Accounts payable-other	131 million yen
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4. Statement of income

Transaction with associated companies

Trade transaction	Net sales	1,183,911 million yen
	Cost of sales	244,998
Non-trade transaction	Dividend income	1,675
	Other	71

5. Statement of changes in net assets

Treasury shares

Class and number of treasury shares as of December 31, 2016

Common stock 1,681,526 shares

(Note) On February 29, 2016, the Company canceled 199,182,000 treasury shares on the resolution of the Board of Directors of the Company held on February 12, 2016.



## 6. Deferred tax accounting

### Detail of deferred tax assets and deferred tax liabilities

#### (Deferred tax assets)

Tax loss carry forward	51,496	million yen
Provision for retirement benefits	12,185	
Provision for repairs	6,389	
Accumulated impairment loss	746	
Excess amortization	332	
Other	3,923	
Subtotal	75,073	
Valuation allowance	(9,998)	
Total deferred tax assets	65,075	

#### (Deferred tax liabilities)

Gain on sales of subsidiaries' stocks	(26,115)	million yen
Deferred taxation on the gain from inventory valuation method change	(8,896)	
Reserve for property replacement	(5,850)	
Land revaluation	(5,050)	
Other	(3,261)	
Total deferred tax liabilities	(49,172)	
Net of deferred tax assets and liabilities	15,902	

Net deferred tax assets are included in the following accounts on the balance sheets.

Current assets - Deferred tax assets	5,726	million yen
Non-current assets - Deferred tax assets	10,176	million yen

- Amendment to amount of deferred tax assets and liabilities due to change in corporate income tax rate, etc.

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 13 of 2016) have been promulgated on March 31, 2016. With this amendment, the corporate income tax rates, etc. are to be reduced effective from the fiscal year beginning on and after April 1, 2016. In conjunction with this, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities is changed from the previous rate of 32.3%. The rate is 30.9% for temporary differences expected to be realized in the fiscal years beginning on January 1, 2017 and beginning on January 2018, and 30.6% for temporary differences expected to be realized in the fiscal years beginning on and after January 1, 2019.

As a result, deferred tax assets (after deducting deferred tax liabilities) increased by 69 million yen, valuation difference on available-for-sale securities increased by 7 million yen, and income taxes-deferred decreased by 62 million yen.

Moreover, the system of deduction for losses carried forward has been revised. The limit of deduction from taxable income applicable to losses carried forward is amount equivalent to 60% of the income before loss carried forward effective from the fiscal year beginning on January 1, 2017, 55% effective from the fiscal year beginning on January 1, 2018 and 50% effective from the fiscal years beginning on and after January 1, 2019. As a result, deferred tax assets (after deducting deferred tax liabilities)

decreased by 461 million yen and income taxes - deferred increased by 461 million yen.

## 7. Lease transactions

The accounting treatment for finance lease transactions that do not transfer ownership to the lessee and became effective on or before December 31, 2008 is calculated pursuant to the method applied to ordinary operating lease transactions. The detail is as follows.

- (1) Acquisition cost equivalent, accumulated depreciation equivalent and net book value equivalent at the closing date

(Million yen)			
Assets	Acquisition cost equivalent	Accumulated depreciation equivalent	Net book value equivalent at the closing date
Buildings	89	36	52

(Note) The acquisition cost equivalent includes interest-equivalent expenses with no adjustment made since the outstanding balance of future lease payment at the closing date is immaterial considering the total value of property, plant and equipment.

- (2) Outstanding balance of future lease payment at the closing date

Due within one year	4 million yen
Due in over one year	48 million yen
<b>Total</b>	<b>52 million yen</b>

(Note) The outstanding balance of future lease payment includes interest-equivalent expenses, since the outstanding balance of future lease payment at the closing date is immaterial considering the total value of property, plant and equipment.

- (3) Lease fees paid and depreciation expense equivalent

Lease fees paid	28 million yen
Depreciation expense equivalent	28 million yen

- (4) Calculation method for depreciation expense equivalent

The straight-line method with no residual value, where the lease period is treated as the depreciation period.

## 8. Transaction with related parties

Transaction with the directors

Attribute	Name	Percentage of voting shares owned by the Company (%)	Relationship of related party	Contents of transaction	Transaction amount (Million yen)	Account title	Outstanding balance at the closing date (Million yen)
Director	Jun Mutoh	0.0%	Representative Director and President	Purchase of stock acquisition rights	37	Accounts payable - other	37
Director	Takashi Hirose	0.0%	Representative Director and Vice President	Purchase of stock acquisition rights	31	Accounts payable - other	31
Director	Tomohide Miyata	0.0%	Senior Managing Director	Purchase of stock acquisition rights	22	Accounts payable - other	22
Director	Yasushi Onoda	0.0%	Senior Managing Director	Purchase of stock acquisition rights	19	Accounts payable - other	19

9. Financial data per share

(3) Net assets per share:	999.33	yen
(4) Earnings per share:	177.51	yen

10. Significant subsequent events

- Merger of EMG Marketing G. K.

The Company's Board of Directors on November 11, 2016, passed a resolution on an absorption-type merger (the "Merger") with its consolidated subsidiary EMG Marketing G. K. ("EMG Marketing") to take place, with the Company remaining as the surviving company and EMG Marketing to be dissolved and both companies executed an absorption-type merger agreement on the same day. As a result, the Company merged with EMG Marketing as of January 1, 2017. The details are shown in "8. Significant subsequent events" of "Notes to Consolidated financial statements".

11. Monetary unit used for reporting

Amounts are shown in truncated millions of yen.