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

Consolidated Financial Results for the 2016
(Japanese GAAP basis)

February 14, 2017

Company name: TonenGeneral Sekiyu K.K. Listed on: Tokyo Stock Exchange
Code number: 5012 URL: http://www.tonengeneral.co.jp
Representative: Jun Mutoh Representative Director and President
Contact person: Kosuke Kai Manager, Media Relations, Public Relations & CSR Tel: (03)-6713-4400

Scheduled date of Annual General Shareholders' Meeting: March 24, 2017
Scheduled date of filing Annual Securities Report: March 24, 2017
Scheduled date of start of dividends payment: March 27, 2017
Preparation of presentation material for yearly results: Yes
Briefing for institutional investors: Yes

(Amounts shown in truncated millions of yen)

1. Consolidated financial results for the full year 2016 (January 1, 2016 through December 31, 2016)

(1) Operating results (Percentage figures are the changes from the same period prior year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2016	2,089,386	(20.5)	81,049	-	76,651	-	64,410	-
2015	2,627,850	(23.9)	2,017	-	(294)	-	51	-

(Note) Comprehensive income: 57,016 million yen [-%] for 2016 (5,728) million yen [-%] for 2015

	Earnings per share	Diluted earnings per share	Profit attributable to owners of parent per shareholders' equity	Ordinary income per total assets	Operating income per net sales
	Yen	Yen	%	%	%
2016	176.84	176.72	25.3	6.2	3.9
2015	0.14	0.14	0.0	0.0	0.1

(Reference) Equity earnings: (2,004) million yen for 2016 (57) million yen for 2015

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
Dec. 31, 2016	1,249,089	277,242	22.2	760.34
Dec. 31, 2015	1,209,364	234,106	19.3	639.61

(Reference) Net assets excluding non-controlling interests and subscription rights to shares:
277,004 million yen as of December 31, 2016 232,976 million yen as of December 31, 2015

(3) Cash flows

	Net cash from operating activities	Net cash from investing activities	Net cash from financing activities	Cash and cash equivalents at the end of the period
	Million yen	Million yen	Million yen	Million yen
2016	108,664	(29,077)	(79,301)	99,999
2015	170,938	(44,172)	(61,653)	100,161

2. Dividends

	Annual dividend					Total amount (full year)	Payout ratio (consolidated)	Dividend per net assets (consolidated)
	1Q end	2Q end	3Q end	4Q end	Full year			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
2015	-	19.00	-	19.00	38.00	13,841	26,775.4	5.3
2016	-	19.00	-	28.50	47.50	17,303	26.9	6.1
2017 (Forecast)								

(Notes) 1 Details of year-end dividends for the Full year 2016: Regular dividend 19.00 yen, Special dividend 9.50 yen
2 The Company plans to conduct a merger with JX Nippon Oil & Energy Corporation on April 1, 2017. Because of the plan, we have not created dividends forecast for 2017.

3. Projected consolidated operating results for 2017 (January 1, 2017 through December 31, 2017)

(Percentage figures are the changes from the same period prior year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
2Q YTD	-	-	-	-	-	-	-	-	-
Full year	-	-	-	-	-	-	-	-	-

(Note) The Company plans to conduct a merger with JX Nippon Oil & Energy Corporation on April 1, 2017. Because of the plan, we have not created projected consolidated operating results for 2017.

* Notes

(1) Change in major subsidiaries in the current period (change in designated subsidiaries resulting in a change in the scope of consolidation): No

(2) Change in accounting policy, change in accounting estimates and restatements
a. Change in accounting policy with accounting standards revisions : Yes
b. Change in accounting policy other than above : No
c. Change in accounting estimates : No
d. Restatements : No

(3) Number of shares issued (Common Stock)

a. Number of shares issued at the end of period (includes treasury shares)
2016 366,000,000 shares 2015 565,182,000 shares

b. Number of treasury shares at the end of period
2016 1,681,526 shares 2015 200,936,131 shares

c. Average number of shares during the period
2016 364,241,622 shares 2015 364,276,579 shares

(Reference) Summary of non-consolidated financial results

1. Financial results for 2016 (January 1, 2016 through December 31, 2016)

(1) Operating results (Percentage figures are the changes from the same period prior year)

	Net sales		Operating income		Ordinary income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2016	2,013,004	(15.2)	61,173	-	62,217	-	64,656	-
2015	2,372,577	(20.4)	(8,976)	-	(5,344)	-	(9,085)	-

	Earnings per share	Diluted earnings per share
	Yen	Yen
2016	177.51	177.40
2015	(24.94)	-

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
Dec. 31, 2016	1,289,483	364,092	28.2	999.33
Dec. 31, 2015	1,243,415	313,078	25.2	859.06

(Reference) Net assets excluding subscription rights to shares:
364,075 million yen as of December 31, 2016 312,908 million yen as of December 31, 2015

- **Audit status of Annual Securities Report *(Yukashoken-Houkokusho)* for 2016**
  This report is not required to be included and is not included in the scope of the external audit conducted pursuant to the Financial Instruments and Exchange Act of Japan. The audit procedures for the consolidated financial statements under the Financial Instruments and Exchange Act of Japan have not been completed as of the timing of disclosure of this report.

- **Explanatory note on the use of projections / other notes**
  The Company plans to conduct a merger with JX Nippon Oil & Energy Corporation on April 1, 2017. Because of the plan, we have not created projected consolidated operating results for 2017. For details, please refer to (Attachments) "1. Analysis of operating results and financial condition (1) Analysis of operating results b. Earnings forecast for full year 2017" on page 2.

(Attachments)

Table of contents of attachments

1. Analysis of operating results and financial condition

(1) Analysis of operating results

a. Business overview

Consolidated net sales were 2,089.4 billion yen, 20.5% (538.5 billion yen) lower than last year, due to a decline in product prices resulting from lower crude prices, as well as decreased sales volume.

Consolidated operating income amounted to 81.0 billion yen compared to 2.0 billion yen for the previous period, reflecting higher petroleum product and petrochemical product margins. Inventory effects for the period that are related to crude oil and products, and that are included in operating income reversed from inventory valuation losses of 87.1 billion yen in the previous period to 8.0 billion yen in inventory valuation gains.

Consolidated ordinary income, which incorporates non-operating items including dividend income, foreign exchange losses, interest expenses and share of loss of entities accounted for using equity method, was 76.7 billion yen, compared to a loss of 0.3 billion yen for the previous period.

Profit attributable to owners of parent, which incorporates extraordinary items and income taxes, increased to 64.4 billion yen from 51 million yen in the previous period. Income taxes reflect adjustments in line with revisions to the statutory effective tax rate as further described in the section titled “5. Consolidated financial statements (5) Note to consolidated financial statements.”

Segment results based on operating income less goodwill amortization are shown as follows:

1) Oil segment

Oil segment income was 54.1 billion yen, compared to a loss of 4.4 billion yen for the previous period. Oil segment income excluding inventory valuation gains of 8.5 billion yen, versus losses of 84.3 billion yen in the previous period, was 45.6 billion yen versus gains of 79.8 billion yen in the previous period, reflecting negative factors such as decreased sales volume due to the periodic repair at Kawasaki refinery and lower margin for our principal product of gasoline.

Oil segment income compared with the same period of the previous period

(Unit: Billion yen)

	2015	2016	Difference
Segment income (loss) as reported	(4.4)	54.1	58.5
Inventory effects (losses)	(84.3)	8.5	92.8
Segment income excluding above inventory effects	79.8	45.6	(34.2)

2) Chemical segment

Chemical segment income increased to 44.4 billion yen from 23.9 billion yen in the previous period. Chemical segment income excluding inventory valuation losses of 0.5 billion yen, versus losses of 2.8 billion yen in the previous period, increased to 44.9 billion yen from 26.7 billion yen in the previous period, reflecting favorable olefins margins and aromatics margins recovery.

Chemical segment income compared with the same period of the previous period

(Unit: Billion yen)

	2015	2016	Difference
Segment income as reported	23.9	44.4	20.5
Inventory effects (losses)	(2.8)	(0.5)	2.3
Segment income excluding above inventory effects	26.7	44.9	18.2

b. Earnings forecast for full year 2017

The Company concluded a business integration agreement and other agreements with JX Holdings, Inc. (“JXHD”) on August 31, 2016, and the required items for the business integration were approved at the extraordinary meeting of shareholders of the Company held on December 21, 2016.

As a result, an absorption-type merger, in which JX Nippon Oil & Energy Corporation (“JXE”) is the surviving company and the Company is the absorbed company, will be conducted on April 1, 2017. (For details, please refer to “1. Analysis of operating results and financial condition (4) Business Integration with JX Group.”)

“Projected consolidated operating results for 2017” of the Company is omitted in this report.

(2) Analysis of financial condition

a. Total assets, liabilities and net assets

Total assets as of December 31, 2016 were 1,249.1 billion yen, a 39.7 billion yen increase from December 31, 2015, mainly due to increases in notes and accounts receivable - trade and inventories.

Total liabilities as of December 31, 2016 amounted to 971.8 billion yen, a 3.4 billion yen decrease from December 31, 2015, attributable mainly to decreases in short-term and long-term loans payable. Total net assets as of December 31, 2016 amounted to 277.2 billion yen, a 43.1 billion yen increase from December 31, 2015, due mainly to profit attributable to owners of parent exceeding dividend payments.

199,182,000 treasury shares were canceled on February 29, 2016. This cancelation decreased retained earnings and treasury shares by 141.0 billion yen each.

b. Cash flows

At the end of the current period, the outstanding balance of cash and cash equivalents was 100.0 billion yen, a decrease of 0.2 billion yen versus December 31, 2015. Key factors influencing cash flows are summarized below.

Cash flows from operating activities were positive 108.7 billion yen versus positive 170.9 billion yen in the prior period. This is mainly due to profit before income taxes excluding the impact of items such as non-cash expenses including depreciation and amortization of goodwill.

Cash flows from investing activities were negative 29.1 billion yen versus negative 44.2 billion yen in the prior period. The current period cash outflows are mainly due to capital expenditures.

Cash flows from financing activities were negative 79.3 billion yen versus negative 61.7 billion yen in the prior period. This is mainly due to repayment of short-term and long-term loans payable.

c. Key financial indices

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Shareholders' equity ratio (%) - book base	20.8	20.8	19.0	19.3	22.2
Shareholders' equity ratio (%) - market base	19.6	25.0	27.2	30.8	35.9
Cash flow vs. interest-bearing debt (Times)	-	8.0	3.9	2.0	2.5
Interest coverage ratio (Times)	-	14.5	37.0	72.8	52.0

(Notes) Definitions are as follows:

Shareholders' equity ratio - book base: (period-end total net assets - period-end non-controlling interests – period end subscription rights to shares) / period-end total assets

Shareholders' equity ratio - market base: total value of stock ex. treasury shares at period-end market price / period-end total assets

Cash flow vs. interest-bearing debt: interest-bearing debt / operating cash flow

Interest coverage ratio: operating cash flows / interest paid

1. All indicators have been calculated based on consolidated financial data.
2. Operating cash flow is net cash provided by (used in) operating activities shown in the Consolidated statement of cash flows.
3. Interest-bearing debt is actual interest-bearing debt, defined as short-term loans payable, commercial papers, bonds payable and long-term loans payable on the Consolidated balance sheet. Interest paid is the amount shown in the Consolidated statement of cash flows.
4. No ratios of cash flow vs. interest-bearing debt and interest coverage ratio are shown in FY 2012 as operating cash flow was negative.

(3) Dividend policy, dividend in current period and dividend in next period

a. Dividend policy

The Company intends to continue to carry out its stable dividend policy, while taking into account factors such as the need to maintain a solid balance sheet, generation of cash flows and capital expenditure plans.

b. Dividend in current period

Although it is subject to approval at the general meeting of shareholders, the Company projects a payment to its shareholders as of December 31, 2016 of 28.5 yen as a final dividend for the term ended December 31, 2016, including a regular dividend of 19 yen per share and a special dividend of 9.5 yen per share with the approval of the business integration with JX Group at the extraordinary meetings of shareholder.

c. Dividend in next period

As stated in "(1) Analysis of operating results b. Earnings forecast for full year 2017," because the Company plans to conduct an absorption-type merger, in which JXE is the surviving company and the Company is the absorbed company, on April 1, 2017, information regarding the dividend for the next period has been omitted.

(4) Business Integration with JX Group

The Company and JXHD reached an agreement to consummate the business integration of their energy businesses, and on August 31, 2016, the Company entered into a business integration agreement and a share exchange agreement with JXHD and an absorption-type merger agreement with JXE. As a result, following a share exchange on April 1, 2017, in which JXHD becomes the wholly-owning parent company and the Company becomes the wholly-owned subsidiary, an absorption-type merger, in which JXE, a wholly-owned subsidiary of JXHD, is the surviving company and the Company is the absorbed company, will be conducted on the same day.

Domestic petroleum product demand has been in decline for more than ten years, and with the domestic market projected to contract even further, a string of new or additional highly competitive oil and petrochemical plants is planned to be constructed in Asia, meaning competition in the oil industry is forecast to intensify both in Japan and abroad. Therefore, the two company groups were convinced that in this severe business environment, the best path was to maximize their enterprise value by combining the business resources of their company groups and carrying out intensive business reforms, and agreed to consummate the business integration.

On December 21, 2016, at extraordinary meetings of shareholders of the Company and JXHD, the required items for the business integration were approved.

Furthermore, prior to the business integration with JX Group, on January 1, 2017, the Company concluded an absorption-type merger with its 99.0%-held consolidated subsidiary EMG Marketing Godo Kaisha (“EMGM”). It is expected that by simplifying the business structure and operations of the Company group prior to the business integration, the benefit of the business integration with JX Group will be more likely to be achieved and will be completed more expediently. (Please refer to “5. Consolidated financial statements (5) Notes to consolidated financial statements (Significant subsequent events) Merger of EMG Marketing Godo Kaisha)

Currently, preparations are steadily underway toward the launch of the new company group on April 1, 2017. On April 1, 2017, the day of the business integration, the share exchange will be implemented, and 1 share of common stock in the Company will be exchanged for 2.55 shares of common stock in JXTG Holdings Inc. (currently “JXHD,” trade name will be changed on the same day).

(5) Business and other risks

The following are risk factors that may affect the operating results and financial position of the Company Group as well as the share price of the Company.

a. Industry and economic factors

The operations and earnings of the Company Group are affected by local, regional and global events or conditions that affect supply and demand of oil, petroleum products and petrochemical products. These events and conditions are generally difficult to predict and include decrease in general economic growth rates and the occurrence of economic recessions; supply disruptions; weather including seasonal patterns that affect energy demand and severe weather events that can disrupt operations; technological advances relating to energy usage in refining and production; decrease in domestic oil product demand due to changes in demographics including population growth rates and consumer preferences; and the competitiveness of alternative hydrocarbon or other energy sources or product substitutes.

b. Political factors

The Company Group’s facilities are located in Japan. The Company Group meanwhile acquires crude and feedstock supplies from a wide diversity of sources worldwide and conducts export sales primarily within Asia. Consequently, the Company Group’s normal business operations, such as procurement, production and sales activities, may in the future be affected from time to time by both domestic and worldwide political developments and governmental activities. Both the likelihood of such occurrences and the extent of effects upon the Company Group are not predictable.

c. Market risks, inflation and other uncertainties

Crude oil, petroleum product and chemicals prices fluctuate widely in response to changing market conditions and the dollar-yen exchange rates. The impacts of these price fluctuations on earnings of the Company Group are generally not predictable.

d. Competitive factors

The energy and petrochemical industries are highly competitive. There is competition within the industry, as well as with other industries that supply similar products to customers. A key component of the Company’s competitive position, particularly given the commodity-based nature of many of its products, is its ability to manage expenses successfully, which requires continuous management focus on reducing unit costs and improving efficiency.

e. Regulatory factors

It is possible that the earnings of the Company Group could be affected by laws and regulations applicable to the energy and petrochemical industries. Examples of such include: environmental regulations; restrictions on production, imports and exports, and facilities; price controls; changes in taxation. As a result of an ordinance of the Ministry of Economy, Trade and Industry issued on July 31, 2014 (Ministerial Ordinance for Partial Revision of the Ordinance for Enforcement of the Act on Promotion of Utilization of Non-Fossil Energy Sources and Effective Utilization of Fossil Energy Materials by Energy Suppliers), further improvement in the ratio of the Company’s residual oil cracking capacity to its atmospheric distillation capacity is required by March 31, 2017. The Company will examine and implement the most economical measures to respond to this requirement including the potential to reduce atmospheric distillation capacity.

f. Disaster and accident risk

All of the Company Group's refineries, terminals and operated service stations are operated in accordance with the Company Group's Operations Integrity Management System ("OIMS") to help ensure management of risk of loss and to ensure safety, health and environmental soundness in all aspects of the Company Group's operations. The Company Group generally carries property insurance against natural disasters and accidents to the extent that such insurance is available and can be obtained on reasonable terms. However, a major natural disaster or an unexpected accident might negatively affect our business activities through resulting shutdowns at our business sites and property losses in excess of insurance thereby causing a serious impact on the financial position and operating results of the Company Group.

g. Information management risk

The Company Group directly or indirectly uses and maintains personal information of customers in connection with petroleum businesses, electric power businesses and credit card businesses. In order to protect the information, the Company Group has implemented appropriate security programs in the Company Group and among external third parties managing the information. Nevertheless, possible loss, leakage or falsification of the information could erode social confidence in the Company Group, and have material impact on the Company Group's financial condition and business performance, regardless of its root cause or whether the Company Group directly controls the information.

h. Financing risk

The Company Group finances its working capital and capital investment through a combination of internally generated funds, borrowing from banks and other financial institutions, and issuance of corporate bonds and commercial papers. The interest rate of such financing, except for fixed rate long-term loans and bonds, is determined with short-term money market rates and therefore interest rate increase may affect the Company's financial results.

i. Retirement benefit obligations and plan assets

The Company Group recognizes retirement benefit obligations and retirement benefit expenses based on reasonable assumptions including those for the discount rate and expected rate of return on plan assets as required by applicable accounting standards. However, unexpected changes in the basis for these assumptions including share prices, foreign exchange rates, and interest rates in domestic or foreign markets may result in either a deterioration of the performance of plan assets or significant increase in retirement benefit obligations, causing a material effect on the financial position of the Company Group.

j. Goodwill

The company recognized 271.4 billion yen of goodwill asset as of the end of the current period. The goodwill asset was mainly related to the acquisition of the 99.0% of the interest in EMGM in 2012 and primarily reflects the future profitability and cash flow generation of EMGM. The goodwill asset is amortized over 20 years. As is the case for other fixed assets, the goodwill asset is subject to impairment under current accounting standards.

Among the risks stated above, the risks relative to the future events reflect the Company's judgment as of the end of the current period. The risks stated above do not necessarily cover all risks relative to the Company Group.

2. Description of group companies

The Company Group (the Company and its 10 subsidiaries) and 16 associated companies are engaged in importing, shipping, refining and marketing of crude oil, petroleum products, chemical products and related products.

The following table shows the Company Group and associated companies' business activities.

(As of December 31, 2016)

Segment	Function	Major business	Name of company
Oil	Marketing	Sales of petroleum products	TonenGeneral Sekiyu K.K., EMG Marketing G.K., Chuo Sekiyu Hanbai K.K., EMG Lubricants G.K., Gyxis Corporation, Standard Sekiyu Osaka Hatsubaisho Co., Ltd., Emori Sekiyu K.K., Kimura Sekiyu K.K., K.K. Marutaka Sekiyu, TQ Holdings Australia Pty Limited, and five other companies
	Refining	Manufacturing, processing and sales of petroleum products	TonenGeneral Sekiyu K.K., Keiyo Seisei JV G.K., and Keiyo Sea Berth Co., Ltd.
	Shipping	Marine transportation of crude oil and petroleum products	TonenGeneral Kaiun Y.K.
	Others	Stock and equity share holding, purchases and sales of LNG, and others	TGSH G.K., TonenGeneral Americas L.L.C., Muroran Biomass Power Generation G.K., Shimizu LNG Thermal Power Generation G.K., Shimizu LNG Co., Ltd., Japan Biofuels Supply LLP, and Ichihara Thermal Power Generation G.K.
Chemical	Manufacturing and Marketing	Manufacturing, processing and sales of chemical products	TonenGeneral Sekiyu K.K., Tonen Chemical Corp., and NUC Corporation

(Notes) 1. MOC Marketing G.K. was liquidated on March 16, 2016.

2. 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.

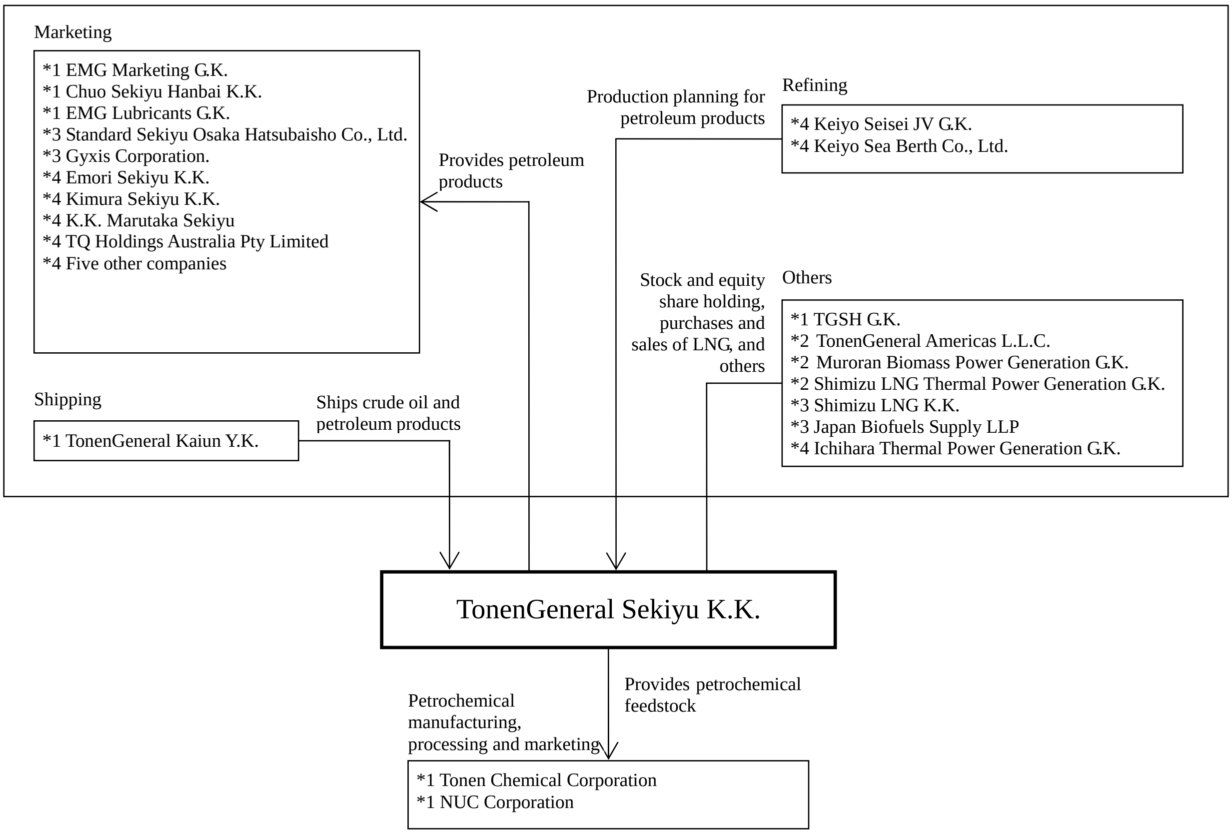
3. The Company established Muroran Biomass Power Generation G.K. on October 11, 2016.

4. The Company established EMG Lubricants G.K. on December 15, 2016.

5. The Company merged with EMGM as of January 1, 2017, based on the absorption-type merger agreement concluded on November 11, 2016, in which the Company is the surviving company and EMG Marketing is the absorbed company.

Business structure of the Company Group as of December 31, 2016 is shown below:

Petroleum products



(Note)
*1 Consolidated subsidiaries
*2 Non-consolidated subsidiaries
*3 Affiliated companies accounted for by the equity method
*4 Affiliated companies not accounted for by the equity method

3. Corporate principles

(1) Basic corporate philosophy

The Company will execute a business integration with JX Group on April 1, 2017. To fulfill its social responsibilities, the Company has created the following new corporate philosophy for the JXTG Group to be established by the integration, including all principles of business operations such as compliance, safety, environmental soundness, health, respect for human rights, fairness, and honesty.

a. Mission

Harnessing the Earth’s power for the common good and for the day-to-day life of each individual, we will contribute to the development of our communities and help to ensure a vibrant future through creation and innovation in energy, resources, and materials.

b. Our five core values

1) As a member of the community

･High ethical standards
Based on our core principles of integrity and fairness, we conduct all of our business activities in accordance with our high ethical standards.

･Health, safety, and environment
We give the highest priority to health, safety and environmental initiatives, which are vital to the well-being of all living things.

2) Supporting day-to-day life

･Focus on customers
We strive to meet the expectations and evolving needs of our valued customers and of society as a whole through the stable provision of products and services while creating new value as only we can.

3) For a vibrant future

･Taking on challenges
Taking changes in stride, we rise to the challenge of creating new value while seeking innovative solutions for today and tomorrow.

･Moving forward
Looking to the future, we continue to grow, both as individuals and as a company, through the personal and professional development of each and every employee

(2) Operating strategies, objectives and indicators

In its business integration with JX Group, the Company is creating a long-term vision and medium-term management plan, which it plans to announce in May 2017. In preparing the long-term vision and medium-term management plan, the following financial goal will be set in principle. However, in light of the International Financial Reporting Standards (IFRS) to be applied by the integrated holding company from consolidated financial statements on Yuho reporting for the accounting period ending in March 2017, the JXTG financial goal will be replaced by figures based on IFRS, which will be announced in May along with the long-term vision and medium-term management plan, and we will implement measures to achieve this goal.

Goal for the final year (FY2019) of the medium-term management plan

1)	Adjusted consolidated before-tax ordinary income	500 billion yen or more
2)	Consolidated return on equity	10% or more
3)	Consolidated net debt-equity ratio	0.9 times or less
4)	Consolidated free cash flows: accumulated total from FY2017 to FY2019	500 billion yen or more

(Notes) 1 Ordinary income not including inventory effects due to crude and product price fluctuations
2 Return on equity = profit attributable to owners of parent ÷ equity
3 Net debt-to-equity ratio = (debt－cash) ÷ equity

(3) Issues to be addressed

The Company will consummate a business integration with the JX Group on April 1, 2017. This will enable the pursuit of rationalization and efficiency improvement that neither company would likely be able to achieve individually, and therefore the two companies will combine the business resources of their company groups and carry out intensive business reforms.
With the establishment of the JXTG Group resulting from the business integration, the two companies will 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 material companies groups in Asia, and contribute to the development of a sustainable and vigorous economy and society.
First, to achieve a more resilient foundation for its energy business, the JXTG Group will conduct thorough structural reforms, aiming to achieve at least 100 billion yen in profit improvements per fiscal year within three years after the business integration. In addition, recognizing that refinery closure is necessary for the reduction of fixed costs, refinery

closure will be implemented soon after the business integration in order to capture further profit improvements. The JXTG Group will also endeavor to improve its financial structure by all feasible means, such as control of investment, sale of unneeded assets, and thorough reduction of working capital, thereby increasing its resilience to risks and solidifying the foundation for future growth. It will also develop and expand its businesses, such as overseas businesses, electricity, gas, new energy, lubricants and specialty chemicals, which will be mainstays of the future.

In respect to investments, the JXTG Group will establish a management system capable of implementing capital efficiency-oriented strategies for investments and business portfolios while enhancing its risk management system.

4. Basic policy for selection of accounting standard

The Company selects Japanese Generally Accepted Accounting Principles as its accounting standards to ensure the comparability across financial statements and other domestic firms.

5. Consolidated financial statements

(1) Consolidated balance sheet

(Unit: Million yen)

	Prior period (December 31, 2015)	Current period (December 31, 2016)
Assets		
Current assets		
Cash and deposits	100,161	99,999
Notes and accounts receivable - trade	172,650	200,451
Merchandise and finished goods	64,274	67,080
Semi-finished goods	35,332	31,353
Raw materials	83,692	113,479
Supplies	10,003	9,946
Income taxes receivable	4,100	1,550
Deferred tax assets	1,733	7,371
Other	24,682	16,059
Allowance for doubtful accounts	(282)	(7)
Total current assets	496,348	547,284
Non-current assets		
Property, plant and equipment		
Buildings and structures	292,522	296,674
Accumulated depreciation	(230,396)	(233,451)
Buildings and structures, net	62,126	63,222
Tanks	79,456	81,346
Accumulated depreciation	(71,552)	(72,578)
Tanks, net	7,903	8,768
Machinery, equipment and vehicles	690,270	700,830
Accumulated depreciation	(654,023)	(658,667)
Machinery, equipment and vehicles, net	36,247	42,163
Tools, furniture and fixtures	22,901	23,378
Accumulated depreciation	(20,261)	(20,235)
Tools, furniture and fixtures, net	2,640	3,142
Land	174,562	173,195
Construction in progress	24,249	19,653
Total property, plant and equipment	307,728	310,145
Intangible assets		
Goodwill	288,865	271,413
Leasehold right	7,410	7,431
Software	7,931	9,762
Other	6,161	4,903
Total intangible assets	310,368	293,511
Investments and other assets		
Investment securities	33,922	32,302
Deferred tax assets	45,391	48,525
Net defined benefit asset	4,222	4,259
Other	11,455	13,113
Allowance for doubtful accounts	(74)	(53)
Total investments and other assets	94,918	98,147
Total non-current assets	713,015	701,804
Total assets	1,209,364	1,249,089

(Unit: Million yen)

	Prior period (December 31, 2015)	Current period (December 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	129,769	174,326
Gasoline taxes payable	244,907	252,725
Short-term loans payable	118,180	78,989
Current portion of bonds	–	10,000
Income taxes payable	1,761	10,144
Accrued consumption taxes	1,408	8,011
Guarantee deposits payable	23,618	23,612
Provision for bonuses	1,743	1,701
Other	75,260	62,816
Total current liabilities	596,649	622,327
Non-current liabilities		
Bonds payable	85,000	75,000
Long-term loans payable	131,027	105,962
Deferred tax liabilities	319	3
Net defined benefit liability	132,993	138,118
Provision for repairs	23,634	23,151
Asset retirement obligations	3,210	3,347
Other	2,423	3,934
Total non-current liabilities	378,609	349,518
Total liabilities	975,258	971,846
Net assets		
Shareholders’ equity		
Capital stock	35,123	35,123
Capital surplus	48,473	49,796
Retained earnings	309,049	218,586
Treasury shares	(142,278)	(1,199)
Total shareholders’ equity	250,367	302,306
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,054	1,128
Revaluation reserve for land	(32)	(47)
Remeasurements of defined benefit plans	(18,412)	(26,382)
Total accumulated other comprehensive income	(17,390)	(25,301)
Subscription rights to shares	170	17
Non-controlling interests	959	220
Total net assets	234,106	277,242
Total liabilities and net assets	1,209,364	1,249,089

(2) Consolidated statement of income and comprehensive income

a. Consolidated statement of income

(Unit: Million yen)

	Prior period (January 1, 2015 through December 31, 2015)	Current period (January 1, 2016 through December 31, 2016)
Net sales	2,627,850	2,089,386
Cost of sales	2,521,511	1,896,940
Gross profit	106,339	192,446
Selling, general and administrative expenses	104,322	111,396
Operating income	2,017	81,049
Non-operating income		
Interest income	123	109
Dividend income	293	194
Gain on sales of spent catalyst	155	28
Compensation income	70	65
Other	477	264
Total non-operating income	1,120	662
Non-operating expenses		
Interest expenses	2,347	2,071
Foreign exchange losses	602	756
Share of loss of entities accounted for using equity method	57	2,004
Other	424	228
Total non-operating expenses	3,431	5,060
Ordinary income (loss)	(294)	76,651
Extraordinary income		
Gain on sales of non-current assets	1,707	2,649
Compensation income for expropriation	–	179
Gain on change in equity	9,617	–
Total extraordinary income	11,324	2,829
Extraordinary losses		
Loss on sales and retirement of non-current assets	1,997	1,944
Impairment loss	91	252
Loss on sales of investment securities	–	738
Total extraordinary losses	2,089	2,934
Profit before income taxes	8,940	76,545
Income taxes - current	4,208	16,389
Income taxes - deferred	4,564	(4,798)
Total income taxes	8,772	11,590
Profit	168	64,955
Profit attributable to non-controlling interests	116	544
Profit attributable to owners of parent	51	64,410

b. Consolidated statement of comprehensive income

(Unit: Million yen)

	Prior period (January 1, 2015 through December 31, 2015)	Current period (January 1, 2016 through December 31, 2016)
Profit	168	64,955
Other comprehensive income		
Valuation difference on available-for-sale securities	455	107
Remeasurements of defined benefit plans, net of tax	(6,344)	(7,996)
Share of other comprehensive income of entities accounted for using equity method	(6)	(50)
Total other comprehensive income	(5,896)	(7,938)
Comprehensive income	(5,728)	57,016
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(5,805)	56,499
Comprehensive income attributable to non-controlling interests	77	516

(3) Consolidated statement of changes in net assets

Prior period (January 1, 2015 through December 31, 2015)

(Unit: Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	35,123	57,400	322,911	(142,201)	273,233
Cumulative effects of changes in accounting policies			(71)		(71)
Restated balance	35,123	57,400	322,840	(142,201)	273,161
Changes of items during period					
Dividends of surplus			(13,843)		(13,843)
Profit attributable to owners of parent			51		51
Purchase of treasury shares				(89)	(89)
Disposal of treasury shares		4		13	17
Deferred tax adjustment due to purchase of treasury shares of prior year		(8,931)			(8,931)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	(8,927)	(13,791)	(76)	(22,794)
Balance at end of current period	35,123	48,473	309,049	(142,278)	250,367

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	576	–	(12,109)	(11,533)	146	907	262,753
Cumulative effects of changes in accounting policies							(71)
Restated balance	576	–	(12,109)	(11,533)	146	907	262,682
Changes of items during period							
Dividends of surplus							(13,843)
Profit attributable to owners of parent							51
Purchase of treasury shares							(89)
Disposal of treasury shares							17
Deferred tax adjustment due to purchase of treasury shares of prior year							(8,931)
Net changes of items other than shareholders' equity	478	(32)	(6,302)	(5,856)	23	51	(5,781)
Total changes of items during period	478	(32)	(6,302)	(5,856)	23	51	(28,575)
Balance at end of current period	1,054	(32)	(18,412)	(17,390)	170	959	234,106

Current period (January 1, 2016 through December 31, 2016)

(Unit: Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	35,123	48,473	309,049	(142,278)	250,367
Changes of items during period					
Dividends of surplus			(13,841)		(13,841)
Profit attributable to owners of parent			64,410		64,410
Purchase of treasury shares				(37)	(37)
Disposal of treasury shares		15		77	93
Retirement of treasury shares		(6)	(141,032)	141,038	–
Deferred tax adjustment due to purchase of treasury shares of prior year		1,313			1,313
Net changes of items other than shareholders' equity					
Total changes of items during period	–	1,322	(90,462)	141,079	51,939
Balance at end of current period	35,123	49,796	218,586	(1,199)	302,306

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	1,054	(32)	(18,412)	(17,390)	170	959	234,106
Changes of items during period							
Dividends of surplus							(13,841)
Profit attributable to owners of parent							64,410
Purchase of treasury shares							(37)
Disposal of treasury shares							93
Retirement of treasury shares							–
Deferred tax adjustment due to purchase of treasury shares of prior year							1,313
Net changes of items other than shareholders' equity	73	(14)	(7,969)	(7,911)	(152)	(738)	(8,802)
Total changes of items during period	73	(14)	(7,969)	(7,911)	(152)	(738)	43,136
Balance at end of current period	1,128	(47)	(26,382)	(25,301)	17	220	277,242

(4) Consolidated statement of cash flows

(Unit: Million yen)

	Prior period (January 1, 2015 through December 31, 2015)	Current period (January 1, 2016 through December 31, 2016)
Cash flows from operating activities		
Profit before income taxes	8,940	76,545
Depreciation	24,265	25,653
Amortization of goodwill	17,451	17,451
Share of (profit) loss of entities accounted for using equity method	57	2,004
Increase (decrease) in provision for bonuses	60	(42)
Increase (decrease) in net defined benefit liability	(3)	5,124
Increase (decrease) in provision for repairs	(228)	(482)
Loss (gain) on sales and retirement of non-current assets	290	(705)
Impairment loss	91	252
Interest and dividend income	(416)	(303)
Interest expenses	2,347	2,071
Foreign exchange losses (gains)	0	448
Loss (gain) on change in equity	(9,617)	–
Compensation income	(70)	(65)
Compensation income for expropriation	–	(179)
Decrease (increase) in notes and accounts receivable - trade	48,418	(28,074)
Loss (gain) on sales of investment securities	–	738
Decrease (increase) in inventories	152,936	(28,557)
Decrease (increase) in accounts receivable - other	(7,607)	8,945
Increase (decrease) in notes and accounts payable - trade	(44,783)	44,557
Increase (decrease) in accounts payable - other	(16,656)	5,494
Other, net	(2,421)	(12,463)
Subtotal	173,054	118,412
Interest and dividend income received	1,298	1,032
Interest expenses paid	(2,349)	(2,089)
Income taxes refund	25,525	3,866
Income taxes paid	(26,660)	(12,622)
Proceeds from compensation	70	65
Net cash provided by (used in) operating activities	170,938	108,664
Cash flows from investing activities		
Purchase of property, plant and equipment	(37,155)	(27,424)
Proceeds from sales of property, plant and equipment	3,547	4,430
Purchase of intangible assets	(4,433)	(4,252)
Proceeds from sales of intangible assets	321	2
Proceeds from compensation for expropriation	–	179
Purchase of investment securities	(7,107)	(2,396)
Proceeds from sales of investment securities	555	305
Other, net	98	79
Net cash provided by (used in) investing activities	(44,172)	(29,077)

(Unit: Million yen)

	Prior period (January 1, 2015 through December 31, 2015)	Current period (January 1, 2016 through December 31, 2016)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(27,660)	(38,984)
Proceeds from long-term loans payable	–	5,000
Repayments of long-term loans payable	(5,078)	(30,271)
Net increase (decrease) in commercial papers	(15,000)	–
Cash dividends paid	(13,843)	(13,841)
Repayments to non-controlling shareholders	–	(1,254)
Other, net	(72)	49
Net cash provided by (used in) financing activities	(61,653)	(79,301)
Effect of exchange rate change on cash and cash equivalents	0	(448)
Net increase (decrease) in cash and cash equivalents	65,113	(162)
Cash and cash equivalents at beginning of period	35,048	100,161
Cash and cash equivalents at end of period	100,161	99,999

(5) Note to consolidated financial statements

(Notes on assumption of going concern)

No items to report.

(Significant accounting policies)

a. Scope of consolidation

1) 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 excluded from the scope of consolidation from the current period as a result of this.

2) Names of major non-consolidated subsidiaries

- Names 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, profit (loss) (amount corresponding to equity), retained earnings (amount corresponding to equity), etc. do not have a material impact to the consolidated financial statements. Therefore, they have been excluded from the scope of consolidation.

b. Application of equity method

1) Number of associates accounted for by the equity method: 4 companies

Shimizu LNG Co., Ltd., Standard Sekiyu Osaka Hatsubaisho Co., Ltd., 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.

2) Names of major non-consolidated subsidiaries and non-equity-method associates

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

3) Reason equity method was not applied

The non-consolidated subsidiaries and associates above are not accounted for by the equity method because they do not have a material impact on 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.

4) Notes to the procedures of applying equity method

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

c. Closing date of consolidated subsidiaries

The closing date of consolidated subsidiaries is the same as that of the Company for consolidated financial statements.

d. Summary of accounting policies

1) Valuation rules and methods for significant assets

- 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

- Derivatives transactions

Market value at the closing date

- Inventories

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

2) Depreciation and amortization of significant non-current assets

- Property, plant and equipment (excluding leased assets)

  Generally the declining-balance method

  As mentioned in (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

- 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.

- 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 significant provisions

- 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.

- Provision for bonuses

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

- Provision for repairs

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

4) Accounting method related to retirement benefits

- 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.

- Method of amortizing actuarial gains and losses and past service cost

  Actuarial gains and losses are generally amortized from the following period using the declining-balance method over a period within employees' average remaining service years (mainly 12 years). Past service cost is amortized using the straight-line method over employees' average remaining service years (11.0 to 12.9 years).

  Unrecognized actuarial gains and losses, and unrecognized past service cost are included in the remeasurements of defined benefit plans presented in accumulated other comprehensive income of the net asset section after adjusting for related deferred tax.

5) Translation method for foreign currency assets and liabilities

Foreign currency assets and liabilities are translated into yen at the spot rate at the closing date, and any difference from exchange rate change is reflected in income.

6) 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.

7) Amortization method and period of goodwill

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

8) Scope of cash and cash equivalents in consolidated statement of cash flows
Cash and cash equivalents are composed of cash on hand, deposits drawable at any time, deposits readily convertible to cash and price change insensitive short-term advances whose maturity comes generally within three months.

9) Accounting method for consumption taxes
Each item in the consolidated statement of income does not include consumption taxes.

(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.

(Accounting standards and other regulations to be applied)

・Guidance on Recoverability of Deferred Tax Asset (ASBJ Guidance No. 26, March 28, 2016)

1) Summary
"Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets" (Report No. 66, the audit committee of the Japanese Institute of Certified Public Accountants) ("Treatment") has a company classified into five categories and each category has different standard for recoverability of deferred tax asset. The concept of the new Guidance basically remains unchanged from the Treatment and adds necessary amendment.

- Treatment of the company which does not to meet any of five categories
- Classification for category 2 and category 3
- Treatment of unscheduled temporary difference for the company of category 2
- Treatment of rational estimated period of taxable income before temporary difference for the company of category 3
- Treatment in case that the company which meets category 4 also meets category 2 or category 3

2) Application schedule
The Guidance will be adopted starting from the beginning of the fiscal year ending December 31, 2017.

3) Effect of application of accounting standards and other regulations
The amount of impact of the adoption of Guidance on Recoverability of Deferred Tax asset on the consolidated financial statements is being estimated.

(Deferred tax accounting)

a. Detail of deferred tax assets and deferred tax liabilities

	Prior period (December 31, 2015)	Current period (December 31, 2016)
Deferred tax assets		
Tax loss carry forward	101,274 million yen	79,082 million yen
Net defined benefit liability	42,114	41,656
Land valuation difference	7,197	6,744
Provision for repairs	7,447	7,116
Accumulated impairment loss	1,602	1,343
Non-refundable deposits	2,134	2,042
Unrealized gains and losses	1,493	991
Asset retirement obligations	1,148	1,099
Other	8,327	8,428
Subtotal	172,739	148,505
Valuation allowance	(71,615)	(52,588)
Total deferred tax assets	101,124	95,916
Deferred tax liabilities		
Deferred taxation on the gain from inventory valuation method change	(19,735)	(9,324)
Land valuation difference	(23,526)	(21,681)
Reserve for property replacement	(6,327)	(5,865)
Prepaid pension costs	(1,360)	(1,301)
Other	(3,369)	(1,853)
Total deferred tax liabilities	(54,319)	(40,025)
Net of deferred tax assets and liabilities	46,805	55,891

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

	Prior period (December 31, 2015)	Current period (December 31, 2016)
Current assets- Deferred tax assets	1,733	7,371
Non-current assets- Deferred tax assets	45,391	48,525
Current liabilities- Other(Deferred tax liabilities)	–	(2)
Non-current liabilities Deferred tax liabilities	(319)	(3)

b. Reconciliation of significant differences between the statutory effective tax rate and the actual effective tax rate after application of deferred tax accounting

	Prior period (December 31, 2015)	Current period (December 31, 2016)
Statutory effective tax rate	35.6%	33.1%
(Adjustments)		
Differences in applicable tax rates	195.0	2.2
Goodwill amortization	69.7	7.5
Equity earnings	0.2	0.9
Valuation allowance	(163.9)	(20.5)
Items not recognized as income, such as dividend received	(1.2)	(10.0)
Gain on change in equity	(38.3)	–
Others	1.1	1.9
Actual effective tax rate	98.2	15.1

c. 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.

(Segment information)

a. Segment information

1) Overview of reportable segments

The reportable segments of the Company Group are the functional segments for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors of the Company to make decisions about resources to be allocated to the segment and assess its performance.

“Oil segment” and “Chemical segment” are identified as reportable segments in accordance with the nature of the operations undertaken and products sold by the Company Group. The Oil segment is organized and operates to manufacture and sell petroleum products, and the Chemical segment is organized and operates to manufacture and sell petrochemical products.

The major products or services by each segment are as follows:

(1) Oil: Gasoline, Naphtha, Jet Fuel, Kerosene, Diesel Fuel, Fuel Oils, Lubricants, LPG, etc.
(2) Chemical: Olefins, Aromatics, Hydrocarbon Fluids, Petroleum Resins, Polyethylene, etc.

2) Measurement method of net sales, segment income, assets, liabilities and others by reportable segments

The accounting methods used in the reportable segments are the same as described in “Significant accounting policies.”

The basis for the reporting of segment income is the same as for operating income.

The amounts of internal transactions between segments are based on fair market value.

3) Net sales, segment income, assets, liabilities and other information by reportable segments

Prior period (January 1, 2015 through December 31, 2015)

(Unit: Million yen)

	Oil	Chemical	Total	Adjustment (Note 1, 2)	Consolidated statement of income amount
Net sales					
Sales to third parties	2,355,490	272,360	2,627,850	–	2,627,850
Internal transactions	1,717,866	49,609	1,767,475	(1,767,475)	–
Total	4,073,357	321,969	4,395,326	(1,767,475)	2,627,850
Segment income (loss)	(4,446)	23,914	19,468	(17,451)	2,017
Other items					
Depreciation	21,017	3,248	24,265	–	24,265

(Notes) 1. Adjustment of (1,767,475) million yen represents an elimination of inter-segment transactions.
2. Goodwill amortization of (17,451) million yen is shown in the adjustment column as it is not allocated to each segment.
3. Total segment income (loss) plus “Adjustment” is the same as operating income in the consolidated statement of income.
4. The information of assets is omitted because the Company does not allocate assets into segments.

Current period (January 1, 2016 through December 31, 2016)

(Unit: Million yen)

	Oil	Chemical	Total	Adjustment (Note 1, 2)	Consolidated statement of income amount
Net sales					
Sales to third parties	1,850,832	238,554	2,089,386	–	2,089,386
Internal transactions	1,324,745	34,001	1,358,747	(1,358,747)	–
Total	3,175,578	272,555	3,448,133	(1,358,747)	2,089,386
Segment income (loss)	54,082	44,418	98,500	(17,451)	81,049
Other items					
Depreciation	22,560	3,092	25,653	–	25,653

(Notes) 1. Adjustment of (1,358,747) million yen represents an elimination of inter-segment transactions.
2. Goodwill amortization of (17,451) million yen is shown in the adjustment column as it is not allocated to each segment.
3. Total segment income (loss) plus “Adjustment” is the same as operating income in the consolidated statement of income.
4. The information of assets is omitted because the Company does not allocate assets into segments.

4) Disclosure of changes, etc. in reportable segments

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

As listed in "5. Consolidated financial statements (5) Note to consolidated financial statements," the Company has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 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 is immaterial.

b. Related information

Prior period (January 1, 2015 through December 31, 2015)

1) Information by products and services

The information is omitted, because the same information is presented in "Segment information."

2) Information by geographic area

- Net sales

(Unit: Million yen)

Japan	Other area	Total
2,108,639	519,211	2,627,850

(Notes) 1. Net sales are classified into countries or regions based on customers' location.
2. Overseas sales are not given by countries or regions, and are included in the other area as net sales for each major country or region is not deemed to be material.
3. Major countries or regions included in other area: Asia Pacific

- Property, plant and equipment

The information is omitted, because the Company does not own major property, plant and equipment outside of Japan.

3) Information by major customers

(Unit: Million yen)

Customer name	Net sales	Related segment
Kygnus Sekiyu K.K.	308,526	Oil

Current period (January 1, 2016 through December 31, 2016)

1) Information by products and services

The information is omitted, because the same information is presented in "Segment information."

2) Information by geographic area

- Net sales

(Unit: Million yen)

Japan	Other area	Total
1,732,319	357,067	2,089,386

(Notes) 1. Net sales are classified into countries or regions based on customers' location.
2. Overseas sales are not given by countries or regions, and are included in the other area as net sales for each major country or region is not deemed to be material.
3. Major countries or regions included in other area: Asia Pacific

- Property, plant and equipment

The information is omitted, because the Company does not own major property, plant and equipment outside of Japan.

3) Information by major customers

(Unit: Million yen)

Customer name	Net sales	Related segment
Kygnus Sekiyu K.K.	256,167	Oil
Showa Shell Sekiyu K. K.	210,318	Oil

c. Impairment loss of non-current assets by reportable segments

Prior period (January 1, 2015 through December 31, 2015)

(Unit: Million yen)

	Oil	Chemical	Total
Impairment loss	91	–	91

Current period (January 1, 2016 through December 31, 2016)

(Unit: Million yen)

	Oil	Chemical	Total
Impairment loss	252	–	252

d. Amortization and residual balance of goodwill by reportable segments

Prior period (January 1, 2015 through December 31, 2015)

Amortization expense and residual balance of goodwill are not allocated to reportable segments.

(Unit: Million yen)

	Company total
Amortization expense	17,451
Residual balance at the end of the period	288,865

Current period (January 1, 2016 through December 31, 2016)

Amortization expense and residual balance of goodwill are not allocated to reportable segments.

(Unit: Million yen)

	Company total
Amortization expense	17,451
Residual balance at the end of the period	271,413

e. Negative goodwill by reportable segments

Not applicable.

(Financial data per share)

Prior period (January 1, 2015 through December 31, 2015)

Net assets per share	639.61 yen
Earnings per share	0.14 yen

(Note) Basis of the calculation

Profit attributable to owners of parent	51 million yen
Profit not relating to common shareholders	–
Profit attributable to owners of parent pertaining to common stock	51 million yen
Average number of outstanding common shares	364,276,579 shares

Diluted earnings per share	0.14 yen

(Note) Basis of the calculation

Adjustments in profit attributable to owners of parent	–
Increase in number of common shares	190,342 shares
(Number of stock acquisition rights included)	(190,342 shares)

Current period (January 1, 2016 through December 31, 2016)

Net assets per share	760.34 yen
Earnings per share	176.84 yen

(Note) Basis of the calculation

Profit attributable to owners of parent	64,410 million yen
Profit not relating to common shareholders	–
Profit attributable to owners of parent pertaining to common stock	64,410 million yen
Average number of outstanding common shares	364,241,622 shares

Diluted earnings per share	176.72 yen

(Note) Basis of the calculation

Adjustments in profit attributable to owners of parent	–
Increase in number of common shares	230,274 shares
(Number of stock acquisition rights included)	(230,274 shares)

(Significant subsequent events)

- Merger of EMG Marketing Godo Kaisha

The Company merged with EMG Marketing Godo Kaisha ("EMGM") as of January 1, 2017, based on the absorption-type merger agreement concluded on November 11, 2016, in which the Company is the surviving company and EMGM is the absorbed company.

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 EMGM 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 Executive Person TonenGeneral Sekiyu Kabushiki Kaisha 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

6. Non-consolidated financial statements

(1) Non-consolidated balance sheet

(Unit: Million yen)

	Prior period (December 31, 2015)	Current period (December 31, 2016)
Assets		
Current assets		
Cash and deposits	95,003	97,313
Accounts receivable - trade	260,535	296,745
Merchandise and finished goods	39,883	45,006
Semi-finished goods	35,159	31,206
Raw materials	83,212	113,024
Supplies	6,435	5,987
Prepaid expenses	4,712	3,945
Income taxes receivable	913	485
Deferred tax assets	679	5,726
Short-term loans receivable from subsidiaries and associates	11,528	9,150
Accounts receivable - other	18,138	6,390
Other	226	1,251
Total current assets	556,429	616,233
Non-current assets		
Property, plant and equipment		
Buildings	12,868	13,060
Structures	26,530	28,036
Tanks	7,441	8,325
Machinery and equipment	27,546	33,467
Vehicles	16	107
Tools, furniture and fixtures	1,269	1,959
Land	93,743	93,995
Construction in progress	23,006	17,855
Total property, plant and equipment	192,423	196,808
Intangible assets		
Goodwill	1,098	639
Leasehold right	1,494	1,494
Software	2,976	4,699
Technology royalty	5,567	4,307
Right of using facilities	270	291
Total intangible assets	11,407	11,432
Investments and other assets		
Investment securities	9,430	9,996
Shares of subsidiaries and associates	4,366	4,366
Investments in capital of subsidiaries and associates	456,693	432,156
Long-term deposits	2,300	3,459
Deferred tax assets	5,367	10,176
Other	5,036	4,881
Allowance for doubtful accounts	(39)	(28)
Total investments and other assets	483,154	465,009
Total non-current assets	686,985	673,250
Total assets	1,243,415	1,289,483

(Unit: Million yen)

	Prior period (December 31, 2015)	Current period (December 31, 2016)
Liabilities		
Current liabilities		
Notes payable - trade	6,149	22,903
Accounts payable - trade	144,059	175,125
Gasoline taxes payable	241,470	249,834
Short-term loans payable	106,909	72,925
Current portion of long-term loans payable	1,271	1,064
Current portion of bonds	–	10,000
Short-term loans payable to subsidiaries and associates	87,381	84,980
Accounts payable - other	29,196	21,297
Accrued expenses	10,132	12,217
Income taxes payable	393	2,744
Accrued consumption taxes	–	5,851
Advances received	6,802	4,900
Guarantee deposits payable	14,240	14,480
Provision for bonuses	1,026	1,006
Other	1,244	1,203
Total current liabilities	650,278	680,536
Non-current liabilities		
Bonds payable	85,000	75,000
Long-term loans payable	131,027	105,962
Provision for retirement benefits	40,619	39,717
Provision for repairs	21,687	20,778
Asset retirement obligations	1,409	1,487
Other	314	1,908
Total non-current liabilities	280,058	244,854
Total liabilities	930,336	925,391
Net assets		
Shareholders’ equity		
Capital stock	35,123	35,123
Capital surplus		
Legal capital surplus	20,741	20,741
Other capital surplus	6	15
Total capital surpluses	20,748	20,757
Retained earnings		
Legal retained earnings	8,780	8,780
Other retained earnings		
Reserve for property replacement	13,217	13,248
Retained earnings brought forward	377,955	286,718
Total retained earnings	399,954	308,747
Treasury shares	(143,277)	(1,209)
Total shareholders’ equity	312,547	363,418
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	360	656
Total valuation and translation adjustments	360	656
Subscription rights to shares	170	17
Total net assets	313,078	364,092
Total liabilities and net assets	1,243,415	1,289,483

(2) Non-consolidated statement of income

(Unit: Million yen)

	Prior period (January 1, 2015 through December 31, 2015)	Current period (January 1, 2016 through December 31, 2016)
Net sales	2,372,577	2,013,004
Cost of sales	2,354,816	1,917,758
Gross profit	17,760	95,245
Selling, general and administrative expenses	26,736	34,072
Operating income (loss)	(8,976)	61,173
Non-operating income		
Interest income	213	173
Dividend income	5,792	2,872
Other	350	172
Total non-operating income	6,356	3,218
Non-operating expenses		
Interest expenses	1,559	1,341
Interest on bonds	664	645
Foreign exchange losses	286	43
Other	215	144
Total non-operating expenses	2,725	2,174
Ordinary income (loss)	(5,344)	62,217
Extraordinary income		
Gain on sales of non-current assets	549	1,209
Compensation income for expropriation	–	179
Gain on extinguishment of tie-in equity interest	2,520	–
Total extraordinary income	3,069	1,388
Extraordinary losses		
Loss on sales and retirement of non-current assets	493	803
Impairment loss	–	239
Loss on liquidation of subsidiaries	–	30
Total extraordinary losses	493	1,073
Profit (loss) before income taxes	(2,768)	62,531
Income taxes - current	789	7,848
Income taxes - deferred	5,528	(9,972)
Total income taxes	6,317	(2,124)
Profit (loss)	(9,085)	64,656

(3) Non-consolidated statement of changes in net assets

Prior period (January 1, 2015 through December 31, 2015)

(Unit: Million yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						Reserve for property replacement	Retained earnings brought forward	
Balance at beginning of current period	35,123	20,741	1	20,743	8,780	13,406	400,694	422,882
Changes of items during period								
Dividends of surplus							(13,843)	(13,843)
Loss							(9,085)	(9,085)
Purchase of treasury shares								
Disposal of treasury shares			4	4				
Reversal of reserve for property replacement						(189)	189	–
Net changes of items other than shareholders' equity								
Total changes of items during period	–	–	4	4	–	(189)	(22,738)	(22,928)
Balance at end of current period	35,123	20,741	6	20,748	8,780	13,217	377,955	399,954

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	(143,200)	335,548	163	163	146	335,858
Changes of items during period						
Dividends of surplus		(13,843)				(13,843)
Loss		(9,085)				(9,085)
Purchase of treasury shares	(89)	(89)				(89)
Disposal of treasury shares	13	17				17
Reversal of reserve for property replacement		–				–
Net changes of items other than shareholders' equity			196	196	23	220
Total changes of items during period	(76)	(23,000)	196	196	23	(22,779)
Balance at end of current period	(143,277)	312,547	360	360	170	313,078

Current period (January 1, 2016 through December 31, 2016)

(Unit: Million yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
						Other retained earnings		
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for property replacement	Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	35,123	20,741	6	20,748	8,780	13,217	377,955	399,954
Changes of items during period								
Dividends of surplus							(13,841)	(13,841)
Profit							64,656	64,656
Purchase of treasury shares								
Disposal of treasury shares			15	15				
Retirement of treasury shares			(6)	(6)			(142,021)	(142,021)
Reversal of reserve for property replacement						31	(31)	–
Net changes of items other than shareholders' equity								
Total changes of items during period	–	–	9	9	–	31	(91,237)	(91,206)
Balance at end of current period	35,123	20,741	15	20,757	8,780	13,248	286,718	308,747

	Shareholders' equity		Valuation and translation adjustments			
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	Subscription rights to shares	Total net assets
Balance at beginning of current period	(143,277)	312,547	360	360	170	313,078
Changes of items during period						
Dividends of surplus		(13,841)				(13,841)
Profit		64,656				64,656
Purchase of treasury shares	(37)	(37)				(37)
Disposal of treasury shares	77	93				93
Retirement of treasury shares	142,027					–
Reversal of reserve for property replacement		–				–
Net changes of items other than shareholders' equity			295	295	(152)	142
Total changes of items during period	142,067	50,871	295	295	(152)	51,013
Balance at end of current period	(1,209)	363,418	656	656	17	364,092

7. Others

(Fire at Wakayama Refinery)

Early on the morning of January 18, 2017, a fire occurred in a tank at the Company's Wakayama refinery during tank cleaning operations, which had started in late November 2016. The fire was extinguished at around 6:00 p.m. on January 19. In addition, a fire occurred at around 3:40 p.m. on January 22, 2017, in the lubricant oil processing units at the Wakayama refinery. The fire was confirmed to be extinguished at 8:27 p.m. on January 24 as a result of firefighting efforts in cooperation with the Arida City Fire Department and neighboring companies. We extend our deepest apologies to members of the local community and others concerned, especially to those who evacuated their homes, for the inconvenience and concern caused by the fire.

Pursuant to the two fire incidents, the Company will establish an Accident Investigation Committee which consists of outside experts, and will conduct a thorough investigation to determine the cause of the incidents and implement appropriate measures to prevent reoccurrence.

Wakayama refinery maritime shipping operations resumed on the evening of January 23 and land shipping operations resumed on the afternoon of January 24. Processing units, excluding the lubricant oil processing units, continue operation at partial capacity. A planned periodic shutdown for aromatics production units has already started. We are making every effort to minimize interruptions to the supply of products, including lubricant products, to our customers.

The effects of these incidents on the consolidated financial statements are currently being evaluated.