



Annual Report 2018

April 1, 2017 – March 31, 2018

RELIABILITY IN ENERGY SUPPLY



To Our Shareholders and Investors

Profile

As a comprehensive energy-focused group, the Fuji Oil Group (the Group) seeks to fulfill its responsibilities as a corporate citizen by contributing to the future affluence of society and the realization of a safe and comfortable environment. Based on this mission, the Group provides a stable supply of energy products, which are indispensable to people's daily lives and industrial activities.

Contents

To Our Shareholders and Investors	01
Financial Section	03
Consolidated Balance Sheets	03
Consolidated Statements of Income	05
Consolidated Statements of Comprehensive Income	06
Consolidated Statements of Changes in Net Assets	07
Consolidated Statements of Cash Flows	09
Notes to Consolidated Financial Statements	11
Independent Auditor's Report	30
Investor Information	31

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains forward-looking statements that reflect FOC and its consolidated subsidiaries' forecast, targets, plans, and strategies. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, and various other factors that may cause FOC's actual results, performance, achievements, or financial position to be materially different from any future results, performance, achievements, or financial position expressed or implied by these forward-looking statements.



Atsuo Shibota
President and Representing Director

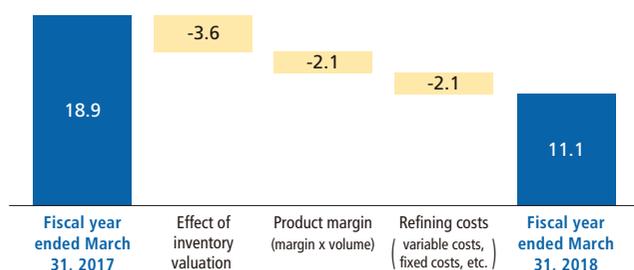
Consolidated Performance:

Stable profit level for a periodic shut-down maintenance year

In the business results for the fiscal year ended March 31, 2018, profit attributable to owners of parent declined by 7.5 billion yen from the previous fiscal year to 7.9 billion yen, primarily due to the stoppage of all production equipment at the Sodegaura Refinery from May to June 2017 for a major periodic shut-down maintenance and repair (SDM) carried out once every four years. Looking at major factors, lower downward pressure on cost of sales from effect of inventory valuation than in the previous fiscal year, a decline in sales volume due to the major SDM, and an increase in related costs were major factors behind the decline in profit, despite better profit margins supported by a tight supply-demand balance in oil products market and a decrease in refining costs realized by the start of operation of the Asphalt Pitch-Fueled Boiler Turbine Generator (ASP-BTG) that had been under construction since 2015. Although profit declined from the previous fiscal year, the Company was able to post a solid level of profit for a year in which periodic shut-down maintenance was conducted.

(Billions of yen)	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017	Increase (decrease)
Net sales	423.7	419.5	4.2
Operating profit	11.1	18.9	(7.7)
Ordinary profit	8.6	18.1	(9.4)
Profit attributable to owners of parent	7.9	15.5	(7.5)
Operating profit excluding the effect of inventory valuation	7.2	11.3	(4.0)
Ordinary profit excluding the effect of inventory valuation	4.6	10.5	(5.8)

■ Main factors of change in operating profit (Billions of yen)

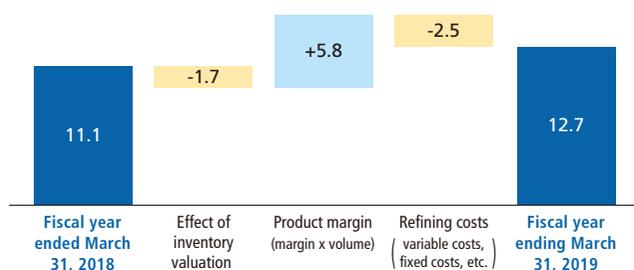


With increased margins on products, increased profit forecast compared to the fiscal year ended March 31, 2018

The business results forecast for the fiscal year ending March 31, 2019 reflects an expected limited effect of downward pressure on cost of sales due to the effect of inventory valuation. However, unlike the fiscal year under review, in which we carried out major SDM, we will be able to conduct

	Crude Oil Price (Dubai Crude)	Exchange Rate
Assumptions	US\$67/Barrel	¥110/US\$

■ Main factors of change in operating profit (Forecast) (Billions of yen)



* Values are based on related information as of the time of announcement (August 9, 2018) and are subject to change in the future.

sales under a full production structure from the beginning of the fiscal year, and margins on products are expected to be firm. So, we forecast higher results in the current fiscal year: operating profit of 12.7 billion yen, ordinary profit of 10.3 billion yen, and profit attributable to owners of parent of 8.2 billion yen. Operating profit and ordinary profit, excluding effect of inventory valuation, are expected to be 10.5 billion yen and 8.1 billion yen, respectively.

Enhancement and New Installation of Facilities:

Responding to changes in demand structure and improving profitability

During the period of SDM at the Sodegaura Refinery in the fiscal year ended March 31, 2018, we carried out expansion and reinforcement work at the No. 2 Fluid Catalytic Cracking Unit (No. 2 FCC), which produces gasoline, petrochemicals, and other high value-added products from heavy petroleum fractions. The production capacity was expanded by 3,000 bbl/day to 24,000 bbl/day as of June 30, 2017.

Together with the capacity increase made in the Vacuum Residue Thermal Cracking Unit (Eureka Unit) in the fiscal year ended March 31, 2017, the increased capacity of both cracking units will contribute to our ability to respond to decreased demand for heavy oil or other changes in demand structure, and to increased profitability through expanded production of high value-added products.

Looking ahead, we will continue making steady progress in investigating and carrying out capital investments aimed at increasing competitiveness, will realize stable increases in profit even in an increasingly severe business environment, and will connect these to the enhancement of our corporate value through improvement and strengthening of our financial constitution, expansion of returns to shareholders and other means.

August, 2018

Atsuo Shibota
President and Representing Director

Financial Section

Consolidated Balance Sheets

Fuji Oil Company, Ltd. and Consolidated Subsidiaries
As of March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Assets			
Current assets:			
Cash and deposits (Notes 4 and 16)	¥ 15,954	¥ 13,592	\$ 150,169
Notes and accounts receivable - trade (Note 4)	51,056	51,261	480,572
Short-term investment securities (Notes 4, 5 and 16)	100	100	941
Inventories (Notes 3 and 11)	81,725	74,931	769,249
Accounts receivable - other (Note 4)	8,782	6,796	82,662
Deferred tax assets (Note 12)	551	242	5,186
Other	2,511	2,954	23,635
Total current assets	160,682	149,879	1,512,444
Property, plant and equipment (Notes 6 and 7):			
Buildings and structures, net (Note 11)	12,011	10,175	113,055
Storage tanks, net (Note 11)	4,006	3,958	37,707
Machinery, equipment and vehicles, net (Note 11)	36,900	18,216	347,327
Land (Note 11)	51,660	51,660	486,258
Construction in progress	2,446	18,793	23,023
Other, net	301	242	2,833
Total property, plant and equipment	107,326	103,047	1,010,222
Intangible assets (Note 7)	931	599	8,763
Investments and other assets:			
Investment securities (Notes 4 and 5)	16,964	17,130	159,676
Long-term loans receivable	832	874	7,831
Long-term accounts receivable - other (Note 4)	5,312	16,828	50,000
Net defined benefit asset (Note 13)	95	—	894
Other	695	519	6,542
Allowance for doubtful accounts	(412)	(460)	(3,878)
Total investments and other assets	23,489	34,892	221,094
Total assets	¥ 292,430	¥ 288,418	\$ 2,752,541

See notes to consolidated financial statements.

Liabilities and Net assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Current liabilities:			
Accounts payable - trade (Note 4)	¥ 28,068	¥ 30,594	\$ 264,194
Short-term loans payable (Notes 4 and 11)	64,017	61,447	602,570
Current portion of long-term loans payable (Notes 4 and 11)	22,220	15,848	209,149
Accounts payable - other (Note 4)	18,394	21,778	173,136
Excise taxes payable on gasoline and other fuels (Note 4)	23,600	18,647	222,139
Income taxes payable (Notes 4 and 12)	69	2,665	649
Other (Notes 11 and 12)	9,693	4,602	91,237
Total current liabilities	166,064	155,583	1,563,102
Noncurrent liabilities:			
Long-term loans payable (Notes 4 and 11)	39,267	49,778	369,607
Deferred tax liabilities (Note 12)	9,561	9,259	89,994
Provision for special repairs	2,052	1,963	19,315
Provision for repairs	1,162	5,812	10,938
Net defined benefit liability (Note 13)	2,660	2,924	25,038
Provision for directors' retirement benefits	19	19	179
Other (Note 11)	1,786	260	16,811
Total noncurrent liabilities	56,509	70,018	531,899
Total liabilities	222,573	225,601	2,095,002
Commitments and contingent liabilities (Note 15)			
Net assets (Note 14)			
Shareholders' equity:			
Capital stock:			
Authorized - 200,000,000 shares in 2018 and 2017			
Issued - 78,183,677 shares in 2018 and 2017			
	24,467	24,467	230,299
Capital surplus	30,396	30,396	286,107
Retained earnings	17,665	10,339	166,274
Treasury stock (Note 14)	(1,431)	(1,431)	(13,470)
Total shareholders' equity	71,097	63,771	669,211
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	210	111	1,977
Revaluation reserve for land	1	1	9
Foreign currency translation adjustments	(1,585)	(1,067)	(14,919)
Remeasurements of defined benefit plans (Note 13)	(59)	(181)	(555)
Total accumulated other comprehensive income	(1,433)	(1,135)	(13,488)
Non-controlling interests	191	180	1,798
Total net assets	69,856	62,816	657,530
Total liabilities and net assets	¥ 292,430	¥ 288,418	\$ 2,752,541

See notes to consolidated financial statements.

Financial Section

Consolidated Statements of Income

Fuji Oil Company, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net sales (Note 19)	¥ 423,772	¥ 419,530	\$ 3,988,818
Cost of sales (Note 3)	409,000	396,822	3,849,774
Gross profit	14,772	22,707	139,044
Selling, general and administrative expenses (Note 8)	3,584	3,767	33,735
Operating profit	11,188	18,940	105,309
Non-operating income (expenses):			
Interest and dividends income	284	239	2,673
Equity in earnings of affiliates	404	1,397	3,803
Interest expenses	(2,371)	(1,971)	(22,317)
Foreign exchange gains (losses), net	(28)	261	(264)
Loss on retirement of noncurrent assets (Note 9)	(155)	(156)	(1,459)
Gain on sales of noncurrent assets (Note 10)	3	7	28
Impairment losses (Note 7)	(51)	(3)	(480)
Other, net	(844)	(769)	(7,944)
Total non-operating income (expenses)	(2,758)	(995)	(25,960)
Profit before income taxes	8,430	17,945	79,349
Income taxes (Note 12):			
Income taxes - current	483	2,381	4,546
Income taxes - deferred	(11)	39	(104)
Total income taxes	472	2,421	4,443
Profit	7,958	15,523	74,906
Profit attributable to non-controlling interests	12	20	113
Profit attributable to owners of parent	¥ 7,945	¥ 15,503	\$ 74,784

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Fuji Oil Company, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Profit	¥ 7,958	¥ 15,523	\$ 74,906
Other comprehensive income:			
Valuation difference on available-for-sale securities	98	283	922
Revaluation reserve for land	—	0	—
Foreign currency translation adjustments	(86)	(73)	(809)
Remeasurements of defined benefit plans	121	123	1,139
Share of other comprehensive income of associates accounted for using equity method	(431)	(388)	(4,057)
Total other comprehensive income	(297)	(54)	(2,796)
Comprehensive income (Note 18)	¥ 7,660	¥ 15,469	\$ 72,101
Comprehensive income attributable to:			
Owners of parent	¥ 7,647	¥ 15,449	\$ 71,979
Non-controlling interests	12	20	113

See notes to consolidated financial statements.

Financial Section

Consolidated Statements of Changes in Net Assets

Fuji Oil Company, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of Yen					
	Shareholders' equity					
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Net assets as of April 1, 2016	78,183,677	¥ 24,467	¥ 41,469	¥ (16,227)	¥ (1,431)	¥ 48,277
Profit attributable to owners of parent				15,503		15,503
Deficit disposition			(11,072)	11,072		—
Net changes of items other than shareholders' equity				(9)		(9)
Total changes during the period		—	(11,072)	26,567	—	15,494
Net assets as of April 1, 2017	78,183,677	24,467	30,396	10,339	(1,431)	63,771
Dividends from surplus				(617)		(617)
Profit attributable to owners of parent				7,945		7,945
Purchase of treasury stock					(0)	(0)
Net changes of items other than shareholders' equity						—
Total changes during the period		—	—	7,326	(0)	7,326
Balance as of March 31, 2018	78,183,677	¥ 24,467	¥ 30,396	¥ 17,665	¥ (1,431)	¥ 71,097

	Millions of Yen						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Net assets as of April 1, 2016	¥ (172)	¥ 1	¥ (605)	¥ (304)	¥ (1,081)	¥ 286	¥ 47,482
Profit attributable to owners of parent							15,503
Deficit disposition							—
Net changes of items other than shareholders' equity	283	0	(461)	123	(54)	(105)	(169)
Total changes during the period	283	0	(461)	123	(54)	(105)	15,334
Net assets as of April 1, 2017	111	1	(1,067)	(181)	(1,135)	180	62,816
Dividends from surplus							(617)
Profit attributable to owners of parent							7,945
Purchase of treasury stock							(0)
Net changes of items other than shareholders' equity	98		(517)	121	(297)	10	(286)
Total changes during the period	98	—	(517)	121	(297)	10	7,039
Balance as of March 31, 2018	¥ 210	¥ 1	¥ (1,585)	¥ (59)	¥ (1,433)	¥ 191	¥ 69,856

See notes to consolidated financial statements.

Thousands of U.S. Dollars (Note 1)						
Shareholders' equity						
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Net assets as of April 1, 2017	78,183,677	\$ 230,299	\$ 286,107	\$ 97,317	\$ (13,470)	\$ 600,254
Dividends from surplus				(5,808)		(5,808)
Profit attributable to owners of parent				74,784		74,784
Purchase of treasury stock					(0)	(0)
Net changes of items other than shareholders' equity						—
Total changes during the period		—	—	68,957	(0)	68,957
Balance as of March 31, 2018	78,183,677	\$ 230,299	\$ 286,107	\$ 166,274	\$ (13,470)	\$ 669,211

Thousands of U.S. Dollars (Note 1)							
Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Net assets as of April 1, 2017	\$ 1,045	\$ 9	\$ (10,043)	\$ (1,704)	\$ (10,683)	\$ 1,694	\$ 591,265
Dividends from surplus							(5,808)
Profit attributable to owners of parent							74,784
Purchase of treasury stock							(0)
Net changes of items other than shareholders' equity	922		(4,866)	1,139	(2,796)	94	(2,692)
Total changes during the period	922	—	(4,866)	1,139	(2,796)	94	66,256
Balance as of March 31, 2018	\$ 1,977	\$ 9	\$ (14,919)	\$ (555)	\$ (13,488)	\$ 1,798	\$ 657,530

See notes to consolidated financial statements.

Financial Section

Consolidated Statements of Cash Flows

Fuji Oil Company, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net cash flows from operating activities:			
Profit before income taxes	¥ 8,430	¥ 17,945	\$ 79,349
Depreciation and amortization	5,821	5,447	54,791
Impairment losses	51	3	480
(Decrease) increase in provision for repairs	(4,650)	2,375	(43,769)
Decrease in net defined benefit liability	(239)	(250)	(2,250)
Decrease in allowance for doubtful accounts	(48)	(0)	(452)
Increase (decrease) in provision for special repairs	88	(243)	828
Increase (decrease) in provision for directors' retirement benefits	0	(9)	0
Interest and dividends income	(285)	(239)	(2,683)
Interest expenses	2,371	1,971	22,317
Equity in earnings of affiliates	(404)	(1,397)	(3,803)
Loss on retirement of noncurrent assets	155	156	1,459
Gain on sale of noncurrent assets	(3)	(7)	(28)
Decrease (increase) in notes and accounts receivable - trade	205	(12,343)	1,930
Increase in inventories	(6,793)	(28,062)	(63,940)
(Decrease) increase in notes and accounts payable - trade	(2,525)	12,043	(23,767)
Increase (decrease) in excise taxes payable on gasoline and other fuels	4,952	(3,715)	46,611
(Decrease) increase in accrued consumption taxes	(4,581)	5,419	(43,119)
Other, net	10,350	(6,916)	97,421
Subtotal	12,896	(7,824)	121,386
Interest and dividends income received	285	239	2,683
Interest expenses paid	(2,335)	(1,980)	(21,979)
Income taxes paid	(3,507)	(144)	(33,010)
Income taxes refund	—	89	—
Net cash provided by (used in) operating activities	¥ 7,339	¥ (9,620)	\$ 69,079

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net cash flows from investing activities:			
Payments into time deposits	¥ (2,621)	¥ (110)	\$ (24,671)
Proceeds from withdrawal of time deposits	100	120	941
Purchase of investment securities	(1)	(12)	(9)
Proceeds from sales of investment securities	5,600	—	52,711
Purchase of property, plant and equipment	(11,312)	(16,672)	(106,476)
Proceeds from sales of property, plant and equipment	3	7	28
Proceeds from national subsidies	847	804	7,973
Purchase of intangible assets	(192)	(151)	(1,807)
Payments of loans receivable	(0)	—	(0)
Collection of loans receivable	36	38	339
Other, net	(48)	(20)	(452)
Net cash used in investing activities	(7,588)	(15,996)	(71,423)
Net cash flows from financing activities:			
Net increase in short-term loans payable	2,766	16,380	26,035
Proceeds from long-term loans payable	11,710	19,700	110,222
Repayment of long-term loans payable	(15,848)	(12,018)	(149,172)
Cash dividends paid	(618)	—	(5,817)
Cash dividends paid to non-controlling interests	(3)	(1)	(28)
Other, net	2,207	(64)	20,774
Net cash provided by financing activities	212	23,996	1,995
Effect of exchange rate changes on cash and cash equivalents	(122)	(116)	(1,148)
Net decrease in cash and cash equivalents	(159)	(1,736)	(1,497)
Cash and cash equivalents at beginning of year (Note 16)	13,592	15,329	127,937
Cash and cash equivalents at end of year (Note 16)	¥ 13,433	¥ 13,592	\$ 126,440

See notes to consolidated financial statements.

Financial Section

Notes to Consolidated Financial Statements

Fuji Oil Company, Ltd. and Consolidated Subsidiaries

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by Fuji Oil Company, Ltd. (the "Company") and its domestic and foreign subsidiaries (collectively, the "Companies"), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The Company and its domestic subsidiaries maintain their accounting records in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. Foreign subsidiary maintains its accounting records in accordance with International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory consolidated financial statements in Japanese, but not required for fair disclosure, is not disclosed in the accompanying consolidated financial statements.

As permitted by the Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at the rate of ¥106.24 = U.S.\$1.00, the approximate rate of exchange on March 31, 2018. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Scope of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its seven and eight significant subsidiaries as of March 31, 2018 and 2017, respectively. Consolidated subsidiaries as of March 31, 2018 are as follows:

- Petro Progress, Inc.
- Petro Progress Pte Ltd.
- Fuji Oil Sales Co., Ltd.
- Fuji Rinkai Co., Ltd.
- Arabian Oil Company, Ltd.
- Japan Oil Engineering Co. Ltd.
- Tokyo Oil Promotion Inc.

Fuji Tanker Company, Ltd., which had been a consolidated subsidiary, was merged into the Company on April 1, 2017. Thus, Fuji Tanker Company, Ltd. was excluded from the above list in 2018.

Petro Progress Pte Ltd. has a fiscal year-end of December 31. The consolidated financial statements incorporate the accounts of the company for the fiscal year ended December 31 with adjustments for significant transactions arising after December 31. The fiscal year-end of other consolidated subsidiaries is March 31.

(b) Equity method

Affiliates accounted for under the equity method as of March 31, 2018 and 2017 are as follows:

- Aramo Shipping (Singapore) Pte Ltd.
- Tokai Engineering & Construction Co., Ltd.

There are two companies (non-consolidated affiliates) in 2018 and 2017, which are not accounted for under the equity method, but stated at cost, because the corresponding amounts of profit (loss) and retained earnings have immaterial impact and do not have a material effect on the consolidated financial statements as a whole.

Non-consolidated affiliates not accounted for under the equity method as of March 31, 2018 are as follows:

- Kyodo Terminal Co., Ltd.
- Keiyo Sea Berth Co., Ltd.

The accounts of a certain affiliate with a different fiscal year-end are consolidated on the basis of the affiliates' fiscal year-end.

(c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash equivalents comprise of readily-available deposits and all highly liquid short-term investments exposed to immaterial risk of fluctuations in the value with an original maturity of three months or less.

(d) Short-term investment securities and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified as available-for-sale securities. Short-term investment securities and investment securities classified as available-for-sale securities are carried at fair value with any changes in valuation on available-for-sale securities, net of taxes, included directly in accumulated other comprehensive income under net assets. The cost of marketable available-for-sale securities sold is calculated by the moving-average method. Non-marketable securities classified as available-for-sale securities are carried at cost determined by the moving-average method.

(e) Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

Merchandise and finished goods, and raw materials are stated at cost determined by the gross average method. Supplies are stated at cost determined by the moving-average method.

(f) Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell.

(g) Depreciation and amortization

Depreciation of manufacturing plant equipment for petrochemical products is calculated principally by the declining-balance method, and depreciation of other property, plant and equipment is calculated principally by the straight-line method based on the estimated useful lives.

The useful lives of major property, plant and equipment are summarized as follows:

- | | |
|----------------------------|----------------|
| ■ Buildings and structures | 2 to 60 years |
| ■ Storage tanks | 10 to 15 years |
| ■ Machinery and equipment | 2 to 24 years |

Intangible assets are amortized by the straight-line method over their respective estimated useful lives. Software intended for internal use is amortized by the straight-line method over an estimated useful life of five years.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debts with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables.

Financial Section

(i) Provision for repairs

The provision for repairs is provided at an amount equivalent to the estimated amount of periodical maintenance expenses for machinery and equipment.

(j) Provision for special repairs

The provision for special repairs is provided at an amount equivalent to the estimated amount of periodical inspection and maintenance expenses for storage tanks required by the Fire Defense Law.

(k) Provision for directors' retirement benefits

Provision for directors' retirement benefits is estimated based on the amount calculated in accordance with internal rules under the assumption that all directors retired at the balance sheet date.

(l) Employees' retirement benefits

(i) Periodic allocation method for projected retirement benefits

Regarding determination of retirement benefit obligations, the benefit formula basis is adopted as the method of attributing expected benefit to the periods until this fiscal year end.

(ii) Method for processing actuarial gains and losses and prior service costs

Prior service costs are amortized by the straight-line method over a period (ten years) within the average remaining years of service of the eligible employees. Actuarial gains and losses are amortized from the year following the year in which the gain or loss is incurred by the straight-line method over a period (ten years) within the average remaining years of service of the eligible employees.

(m) Derivatives and hedge accounting

Derivatives are principally stated at fair value. If certain hedging criteria are met, the gain or loss on a derivative designated as a hedging instrument is deferred as part of accumulated other comprehensive income in the accompanying consolidated balance sheets until the hedged item is settled.

Alternatively, foreign currency denominated receivables and payables hedged by forward exchange contracts are translated at the respective forward contract rates ("allocation method").

Furthermore, in cases where interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts are added to or deducted from the interest on the assets or liabilities for which the swap contracts were executed ("special treatment").

Hedge effectiveness is assessed based on hedged item and hedging instrument's fluctuations by comparing those cumulative market fluctuation totals from inception to the effectiveness test.

The hedge effectiveness test for the forward exchange contracts under the allocation method and the interest rate swap contracts under the special treatment is omitted.

(n) Income taxes

Deferred tax assets and liabilities are recognized for expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and operating loss and tax loss carryforwards. A valuation allowance is recorded to reduce deferred income tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company and certain domestic subsidiaries have adopted a consolidated tax filing system.

(o) Consumption taxes

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

(p) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date, except for foreign currency denominated monetary receivables and payables hedged by forward exchange contracts as noted above. Income and expenses in foreign currencies are translated at the rates prevailing at the time of the transactions. The resulting exchange gains or losses are credited or charged to income as incurred.

Financial statements of foreign subsidiaries and affiliates are translated into Japanese yen at the balance sheet exchange rates for all assets and liabilities, at historical exchange rates for shareholders' equity and average exchange rates during the year for all income and expense accounts. Foreign currency translation adjustments resulting from the above translation procedures are reported as a component of accumulated other comprehensive income under net assets in the accompanying consolidated balance sheets.

(q) Reclassifications

Certain amounts in the consolidated financial statements for the fiscal year ended March 31, 2017 have been reclassified to conform to the current year presentation.

(r) Change in accounting policy

There is no change in accounting policy for the fiscal years ended March 31, 2018 and 2017.

(s) Unapplied accounting standard

Accounting standards for revenue recognition

Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30) on March 30, 2018.

(i) Overview

These accounting standards are comprehensive model of accounting for revenue recognition. In accordance with the accounting standards, revenue is recognized by five steps as follows.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(ii) Scheduled date of application

The Companies are going to apply the accounting standards from the beginning of the fiscal year ending March 31, 2022.

(iii) Effects of application

Effects of application of the accounting standards are currently being examined.

(t) Additional Information

At the beginning of the fiscal year beginning on April 1, 2016, the Companies applied the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26) issued on March 28, 2016.

3. Inventories

Inventories as of March 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Merchandise and finished goods	¥ 28,752	¥ 24,539	\$ 270,633
Raw materials and supplies	52,972	50,391	498,607
Total	¥ 81,725	¥ 74,931	\$ 769,249

Write-down (net of reversal) of inventories held for sale amounted to ¥76 million (\$715 thousand) for the fiscal year ended March 31, 2018. Gain on reversal of allowance (net of write off expense) for inventories held for sale amounted to ¥1,141 million for the fiscal year ended March 31, 2017. They are included in cost of sales in the consolidated statements of income.

Financial Section

4. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

The Companies limit their investment of temporary surpluses to short-term deposits and procure funds for capital investment and working capital through bank loans. Derivatives are employed to hedge against the risks described below. The Companies do not engage in speculative transactions.

(b) Policies and systems for risk management

Trade notes and accounts receivable, which are claimable assets, are subject to customer credit risk. Also, certain receivable related to product exports are denominated in foreign currencies, and therefore entail exchange rate fluctuation risk. The Company uses forward foreign exchange contracts to hedge this risk. As the allocation method is employed for forward exchange contracts, an evaluation of hedge effectiveness is not performed.

Short-term investment securities and investment securities are mainly equity securities and the Company reviews the market values on a quarterly basis for listed securities.

Most accounts payable, which are trade liabilities, are payable within four months. Certain accounts payable and the below-mentioned short-term loans payable related to crude oil imports are denominated in foreign currencies and are therefore subject to exchange rate fluctuation risk. Forward exchange contracts are used to hedge this risk. As the allocation method is applied for forward foreign exchange contracts, an evaluation of hedge effectiveness is not performed.

Short-term loans payable includes mainly funds raised as working capital in relation to crude oil imports. Long-term loans payable mainly comprise funds raised for capital expenditure. Floating-rate loans are subject to interest rate fluctuation risk, but for most long-term loans the Company minimizes the risk of fluctuations in interest payments by fixing payment interest rates, employing interest rate swap transactions to hedge individual contracts. With regard to the evaluation of hedge effectiveness, as interest rate swaps meet the conditions for the application of special treatment as described in Note 2 (m), an evaluation of hedge effectiveness is not performed.

With regard to the execution and control of derivative transactions, authorizations and monetary limits on transactions and controls are determined in accordance with internal rules. When employing derivatives, the Company selects as contractual counterparties Japanese banks, major trading companies and securities firms with high credit ratings. Consequently, the credit risk arising from counterparties being unable to fulfill their contractual obligations is considered negligible.

Trade liabilities and loans are subject to liquidity risk. To manage this risk, the Company creates and updates cash flow plans in a timely manner on the basis of reports from individual departments.

58.2% and 58.0% of claimable assets as of March 31, 2018 and 2017, respectively, are for the specific major customer.

(c) Supplemental information on fair values

In Note 4 (2) Fair values of financial instruments, market risk related to derivative financial instruments is not included in the contract amounts of those instruments.

(2) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheets as of March 31, 2018 and 2017 are set out in the following table.

The following table does not include financial instruments whose fair values are not readily determinable.

Assets	Millions of Yen		Thousands of
			U.S. Dollars
	2018	2017	(Note 1)
Carrying value:			2018
Cash and deposits	¥ 15,954	¥ 13,592	\$ 150,169
Notes and accounts receivable - trade	51,056	51,261	480,572
Short-term investment securities and investment securities:			
Available-for-sale securities	2,082	1,996	19,597
Accounts receivable - other	8,782	6,796	82,662
Long-term accounts receivable - other	5,312	16,828	50,000
Total	83,189	90,475	783,029
Fair value:			
Cash and deposits	15,954	13,592	150,169
Notes and accounts receivable - trade	51,056	51,261	480,572
Short-term investment securities and investment securities:			
Available-for-sale securities	2,082	1,996	19,597
Accounts receivable - other	8,782	6,796	82,662
Long-term accounts receivable - other	5,320	16,928	50,075
Total	83,197	90,575	783,104
Difference:			
Cash and deposits	—	—	—
Notes and accounts receivable - trade	—	—	—
Short-term investment securities and investment securities:			
Available-for-sale securities	—	—	—
Accounts receivable - other	—	—	—
Long-term accounts receivable - other	8	100	75
Total	¥ 8	¥ 100	\$ 75

Liabilities	Millions of Yen		Thousands of
			U.S. Dollars
	2018	2017	(Note 1)
Carrying value:			2018
Accounts payable – trade	¥ 28,068	¥ 30,594	\$ 264,194
Short-term loans payable	64,017	61,447	602,570
Accounts payable - other	18,394	21,778	173,136
Excise taxes payable on gasoline and other fuels	23,600	18,647	222,139
Income taxes payable	69	2,665	649
Long-term loans payable	61,488	65,626	578,765
Total	195,638	200,759	1,841,472
Fair value:			
Accounts payable - trade	28,068	30,594	264,194
Short-term loans payable	64,017	61,447	602,570
Accounts payable - other	18,394	21,778	173,136
Excise taxes payable on gasoline and other fuels	23,600	18,647	222,139
Income taxes payable	69	2,665	649
Long-term loans payable	62,168	66,170	585,166
Total	196,318	201,303	1,847,873
Difference:			
Accounts payable - trade	—	—	—
Short-term loans payable	—	—	—
Accounts payable - other	—	—	—
Excise taxes payable on gasoline and other fuels	—	—	—
Income taxes payable	—	—	—
Long-term loans payable	680	543	6,401
Total	¥ 680	¥ 543	\$ 6,401

Financial Section

Method of calculating the fair value of financial instruments and matters related to investment securities and derivative transactions

Assets:

(a) Cash and deposits, notes and accounts receivable - trade and accounts receivable - other

As these instruments are settled within a short term, their carrying value approximates fair value.

(b) Short-term investment securities and investment securities

The fair values of equity securities are determined by their quoted prices on stock exchanges. Since the bonds are settled within a short term, the Company deems the carrying amounts to approximate fair value. See Note 5 for an analysis of securities by classification.

(c) Long-term accounts receivable - other

Fair values for long-term accounts receivable - other is calculated at the present value of the estimated collectible amounts at maturity discounted by a low risk interest rate corresponding to the remaining period.

Liabilities:

(a) Accounts payable - trade, short-term loans payable, accounts payable - other, income taxes payable and excise taxes payable on gasoline and other fuels

As these instruments are settled within a short term, their carrying value approximates fair value.

(b) Long-term loans payable

For floating-rate loans, the Company assumes that interest rates reflect market rates over the short term and credit conditions will not change significantly after loans have gone into effect, so that the carrying value approximates fair value. For fixed-rate loans, the total amount of principal and interest is discounted to present value using the assumed rate of interest on new loans of the same type to calculate fair value.

Derivatives:

(a) Hedge accounting not applied

There are no outstanding derivative transactions for which hedge accounting is not applied as of March 31, 2018 and 2017.

(b) Hedge accounting applied

The Company has applied hedge accounting for forward exchange contracts to hedge risks of changes in foreign exchange rates on accounts receivable, accounts payable and short-term loans payable. The contract amounts as of March 31, 2018 and 2017 are ¥52,787 million (\$496,866 thousand) and ¥38,209 million for accounts payable and short-term loans payable, respectively. As stated in Note 2 (m), foreign currency denominated receivables and payables hedged by forward exchange contracts are translated at the respective forward contract rates. Therefore, the fair value of accounts receivable, accounts payable, and short-term loans payable include the fair value of the forward exchange contracts.

The Company has applied hedge accounting for interest rate swap contracts to hedge risks of changes in floating interest rates on long-term loans payable. The contract amount as of March 31, 2018 is ¥31,072 million (\$292,470 thousand) and the amount of contracts for which terms are more than one year is ¥18,076 million (\$170,143 thousand). The contract amount at March 31, 2017 was ¥37,143 million and the amount of contracts for which terms are more than one year was ¥23,652 million. As stated in Note 2 (m), if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. Therefore, the fair value of long-term loans payable includes the fair value of the interest swap contracts.

Financial instruments whose fair value is not readily determinable

The carrying value of financial instruments whose fair values are not readily determinable as of March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Unlisted equity securities	¥ 252	¥ 252	\$ 2,372
Stocks of affiliated companies	14,730	14,982	138,648

Monetary claims and securities with maturities after the balance sheet date and their expected maturity values

The redemption schedule for monetary claims and securities with maturity dates as of March 31, 2018, are summarized as follows:

	Millions of Yen			
	One year or less	More than one year, within five years	More than five years, within ten years	More than ten years
	2018			
Cash and deposits	¥ 15,954	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	51,056	—	—	—
Short-term investment securities and investment securities:				
Available-for-sale securities	100	100	100	—
Accounts receivable - other	8,782	—	—	—
Long-term accounts receivable - other	—	5,312	—	—
Total	¥ 75,894	¥ 5,412	¥ 100	¥ —

	Thousands of U.S. Dollars (Note 1)			
	One year or less	More than one year, within five years	More than five years, within ten years	More than ten years
	2018			
Cash and deposits	\$ 150,169	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	480,572	—	—	—
Short-term investment securities and investment securities:				
Available-for-sale securities	941	941	941	—
Accounts receivable - other	82,662	—	—	—
Long-term accounts receivable - other	—	50,000	—	—
Total	\$ 714,364	\$ 50,941	\$ 941	\$ —

The redemption schedule for monetary claims and securities with maturity dates as of March 31, 2017, are summarized as follows:

	Millions of Yen			
	One year or less	More than one year, within five years	More than five years, within ten years	More than ten years
	2017			
Cash and deposits	¥ 13,592	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	51,261	—	—	—
Short-term investment securities and investment securities:				
Available-for-sale securities	100	100	100	—
Accounts receivable - other	6,796	—	—	—
Long-term accounts receivable - other	—	16,828	—	—
Total	¥ 71,750	¥ 16,928	¥ 100	¥ —

Financial Section

5. Short-Term Investment Securities and Investment Securities

Short-term investment securities and investment securities classified as available-for-sale securities as of March 31, 2018 and 2017 are set out in the table below.

The following table does not include financial instruments whose fair values are not readily determinable.

	Millions of Yen			Thousands of U.S. Dollars (Note 1)		
	Acquisition cost	Carrying value	Difference	Acquisition cost	Carrying value	Difference
2018						
Securities with carrying value exceeding acquisition cost:						
Equity securities	¥ 501	¥ 745	¥ 243	\$ 4,716	\$ 7,012	\$ 2,287
Securities with carrying value not exceeding acquisition cost:						
Equity securities	1,108	1,036	(71)	10,429	9,752	(668)
Debt securities	201	200	(0)	1,892	1,883	(0)
Other securities	100	100	—	941	941	—
Total	¥ 1,911	¥ 2,082	¥ 171	\$ 17,988	\$ 19,597	\$ 1,610

	Millions of Yen		
	Acquisition cost	Carrying value	Difference
2017			
Securities with carrying value exceeding acquisition cost:			
Equity securities	¥ 518	¥ 654	¥ 135
Securities with carrying value not exceeding acquisition cost:			
Equity securities	1,108	1,041	(67)
Debt securities	201	201	—
Other securities	100	100	—
Total	¥ 1,927	¥ 1,996	¥ 68

There were no significant available-for-sale securities sold during the fiscal years ended March 31, 2018 and 2017.

6. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation in the accompanying consolidated balance sheets. The accumulated depreciation as of March 31, 2018 and 2017 are ¥278,571 million (\$2,622,091 thousand) and ¥273,852 million, respectively.

Deferred proceeds from national subsidies and insurance claims

Deferred proceeds from national subsidies and insurance claims are directly deducted from the acquisition cost of the related assets in the accompanying consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Proceeds from national subsidies			
Buildings and structures	¥ 564	¥ 374	\$ 5,309
Storage tanks	148	148	1,393
Machinery, equipment and vehicles	1,369	1,026	12,886
Other	128	128	1,205
Software	41	41	386
Proceeds from insurance claims	128	128	1,205

7. Impairment of Noncurrent Assets

For the fiscal year ended March 31, 2018, the Company has recorded impairment losses on following asset groups.

Location	Primary use	Type of asset
Ora country, Gunma prefecture	Idle asset	Land
Chuo-ku, Tokyo	Business asset	Software

Business assets are grouped based on the classification used for management accounting. Other idle assets are grouped by individual asset unit.

Regarding the idle asset which had an indication of impairment, the carrying value was reduced to the recoverable amount since market price of the asset had declined. The reduction amount is recognized as impairment loss amounting to ¥0 million (\$0 thousand) in the accompanying consolidated statement of income.

Regarding the business asset, the carrying value was reduced to the recoverable amount since the operating activity of the consolidated subsidiary continuously resulted in loss. The reduced amount is recognized as impairment loss amounting to ¥51 million (\$480 thousand) in the accompanying consolidated statement of income.

The recoverable amounts for the above asset groups are measured by net realizable value mainly based on the appraisal value provided by a real estate appraiser.

8. Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Directors' compensation	¥ 451	¥ 471	\$ 4,245
Provision for directors' retirement benefits	1	1	9
Salaries and allowances	900	916	8,471
Retirement benefit expenses	106	110	998
Taxes and dues	345	501	3,247

9. Loss on Retirement of Noncurrent Assets

The significant components of loss on retirement of noncurrent assets for the fiscal years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Buildings and structures	¥ 0	¥ 34	\$ 0
Machinery, equipment and vehicles	155	25	1,459
Facility removal cost	—	96	—
Other	0	0	0
Total	¥ 155	¥ 156	\$ 1,459

10. Gain on Sales of Noncurrent Assets

The significant components of gain on sales of noncurrent assets for the fiscal years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Gain on sales of noncurrent assets			
Machinery, equipment and vehicles	¥ 3	¥ 7	\$ 28

Financial Section

11. Short-Term Loans Payable, Long-Term Loans Payable, and Lease Obligations

Short-term loans payable, long-term loans payable, and lease obligations as of March 31, 2018 and 2017 and the weighted average interest rates on the loans payable outstanding as of March 31, 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Short-term loans payable - 1.8%	¥ 64,017	¥ 61,447	\$ 602,570
Current portion of long-term loans payable - 2.1%	22,220	15,848	209,149
Lease obligation due within one year	5	5	47
Long-term loans payable, maturing in 2019-2025 - 1.8%	39,267	49,778	369,607
Lease obligation due in 2019-2021	5	10	47
Total	¥ 125,516	¥ 127,090	\$ 1,181,438

Annual maturities of long-term loans payable as of March 31, 2018 are as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2018	2018
2019	¥ 22,220	\$ 209,149
2020	18,801	176,967
2021	7,575	71,301
2022	5,408	50,904
2023	5,147	48,447
2024 and thereafter	2,335	21,979

Annual maturities of long-term loans payable as of March 31, 2017 are as follows:

Year ending March 31,	Millions of Yen
	2017
2018	¥ 15,848
2019	20,870
2020	16,851
2021	5,744
2022	3,578
2023 and thereafter	2,734

Future lease payments as of March 31, 2018 are as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2018	2018
2019	¥ 5	\$ 47
2020	3	28
2021	1	9
2022	0	0
2023 and thereafter	—	—

Future lease payments as of March 31, 2017 are as follows:

Year ending March 31,	Millions of Yen
	2017
2018	¥ 5
2019	5
2020	3
2021	1
2022 and thereafter	0

Pledged Assets

The following assets are pledged as collateral for long-term loans payable to the factory foundation amounting to ¥49,578 million (\$466,660 thousand) and ¥58,826 million, including current portion of ¥20,868 million (\$196,423 thousand) and ¥15,248 million, as of March 31, 2018 and 2017, respectively.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Buildings and structures	¥ 11,363	¥ 9,484	\$ 106,956
Storage tanks	4,006	3,958	37,707
Machinery, equipment and vehicles	36,498	17,827	343,543
Land	48,952	48,952	460,768
Total carrying value of pledged assets	¥ 100,819	¥ 80,222	\$ 948,974

In addition to the above, the following assets are pledged as collateral for short-term loans payable amounting to ¥16,166 million as of March 31, 2017.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Inventories	¥ —	¥ 65,033	\$ —

12. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise, and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of 30.7% for the fiscal years ended March 31, 2018 and 2017.

The Company and certain domestic subsidiaries have adopted a consolidated tax filing system.

The significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Deferred tax assets:			
Tax loss carryforwards	¥ 21,033	¥ 30,077	\$ 197,976
Net defined benefit liability	782	891	7,361
Provision for repairs	354	1,774	3,332
Provision for special repairs	626	600	5,892
Depreciation	423	318	3,982
Impairment losses	66	67	621
Other	1,562	1,877	14,703
Subtotal	24,849	35,606	233,895
Valuation allowance	(24,081)	(34,846)	(226,666)
Total deferred tax assets	767	759	7,220
Deferred tax liabilities:			
Valuation difference on assets of consolidated subsidiaries	(9,356)	(9,356)	(88,065)
Undistributed earnings of foreign subsidiaries	(253)	(248)	(2,381)
Adjustment assets for gains or losses on assets transfer to intercompany	(87)	(87)	(819)
Other	(83)	(88)	(781)
Total deferred tax liabilities	(9,780)	(9,780)	(92,056)
Net deferred tax liabilities	¥ (9,013)	¥ (9,020)	\$ (84,836)

Financial Section

The above net deferred tax assets and liabilities are recorded under the following accounts in the accompanying consolidated balance sheets:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Current assets – Deferred tax assets	¥ 551	¥ 242	\$ 5,186
Current liabilities – Other	(3)	(4)	(28)
Long-term liabilities – Deferred tax liabilities	(9,561)	(9,259)	(89,994)

Reconciliation between the statutory income tax rate and the effective income tax rate for the fiscal years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Normal effective statutory tax rate	30.7%	30.7%
Change in valuation allowance	(25.8)	(14.9)
Equity in earnings of affiliates	(1.4)	(2.2)
Non-deductible entertainment expenses	0.7	0.1
Other	1.4	(0.2)
Effective tax rate	5.6%	13.5%

13. Retirement Benefits Plans

Certain consolidated subsidiaries operate defined benefit corporate pension plans, lump-sum severance plans and others, which cover substantially all employees who are entitled upon retirement to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rate of pay, length of service, and the conditions under which termination occurs.

The reconciliation of retirement benefit obligation of beginning and ending balances for the fiscal years ended March 31, 2018 and 2017 (except for the adoption of a simplified method in computing their retirement benefit obligations as permitted by Japanese GAAP) are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Retirement benefit obligation at the beginning of the year	¥ 5,510	¥ 5,807	\$ 51,864
Service cost	168	161	1,581
Actuarial gains and losses arising during the period	56	52	527
Defined benefit retirement plans paid	(533)	(510)	(5,017)
Retirement benefit obligation at the end of the year	¥ 5,201	¥ 5,510	\$ 48,955

The reconciliation of plan assets of beginning and ending balances for the fiscal years ended March 31, 2018 and 2017 (except for the adoption of a simplified method stated above) are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Plan assets at the beginning of the year	¥ 2,893	¥ 2,799	\$ 27,231
Expected return on plan assets	46	44	433
Actuarial gains and losses arising during the period	131	132	1,233
Contribution from employer	137	151	1,290
Defined benefit retirement plans paid	(247)	(235)	(2,325)
Plan assets at the end of the year	¥ 2,961	¥ 2,893	\$ 27,871

The reconciliation of net defined benefit liability of beginning and ending balances for the fiscal years ended March 31, 2018 and 2017 for the adoption of a simplified method are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net defined benefit liability at the beginning of the year	¥ 307	¥ 290	\$ 2,890
Retirement benefit expenses	38	30	358
Defined benefit retirement plans paid	(15)	(7)	(141)
Contribution to the plans	(6)	(5)	(56)
Net defined benefit liability at the end of the year	¥ 324	¥ 307	\$ 3,050

The reconciliation of plan assets, retirement benefit obligation and net defined benefit liability and assets on the consolidated balance sheets as of March 31, 2018 and 2017 (included in the adoption of a simplified method stated above) are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Retirement benefit obligation of funded plans	¥ 2,983	¥ 3,107	\$ 28,078
Plan assets	(3,053)	(2,971)	(28,737)
	(69)	136	(649)
Retirement benefit obligation of unfunded plans	2,633	2,788	24,784
Net amount of liabilities after deducting assets on the consolidated balance sheets	2,564	2,924	24,134
Net defined benefit liability	2,660	2,924	25,038
Net defined benefit asset	(95)	—	(894)
Net amount of liabilities after deducting assets on the consolidated balance sheets	¥ 2,564	¥ 2,924	\$ 24,134

The components of retirement benefit expenses for the fiscal years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Service cost	¥ 168	¥ 161	\$ 1,581
Expected return on plan assets	(46)	(44)	(433)
Amortization of actuarial gains and losses	46	42	433
Amortization of prior service cost	0	0	0
Retirement benefit expenses which adopted a simplified method	38	30	358
Retirement benefit expenses related to defined benefit plans	¥ 207	¥ 189	\$ 1,948

The components of remeasurements of defined benefit plans (before income taxes) for the fiscal years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Prior service costs	¥ 0	¥ 0	\$ 0
Actuarial gains and losses	120	122	1,130
Total	¥ 121	¥ 123	\$ 1,139

Financial Section

The components of remeasurements of defined benefit plans-accumulated (before income taxes) for the fiscal years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2018	2017	2018	
Unrecognized prior service costs	¥ 0	¥ (1)	\$	0
Unrecognized actuarial gains and losses	(59)	(179)		(555)
Total	¥ (59)	¥ (181)	\$	(555)

The component ratio of main items included in plan assets for the fiscal years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Bonds	38%	33%
Stocks	51%	46%
General accounts	8%	18%
Other	3%	3%
Total	100%	100%

The actuarial assumptions for the fiscal years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	0.0%	0.0%
Long-term expected rate of return on plan assets	1.6%	1.6%

Long-term expected rate of return on plan assets is determined on the basis of the current/future expected distribution of plan assets and expected current/future return from various assets that composes plan assets.

14. Net Assets

Under the Japanese Corporate Law (the "Law") and related regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of capital stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

Changes in the number of shares issued and treasury stock

The changes in the number of shares issued and treasury stocks for the fiscal years ended March 31, 2018 and 2017 are as follows:

	As of April 1, 2017	Number of Shares		As of March 31, 2018
		Changes during the year		
		2018		
		Increase	Decrease	
Issued stock				
Common stock	78,183,677	—	—	78,183,677
Treasury stock				
Common stock	1,121,132	56	—	1,121,188

Note:

Due to the acquisition of the odd lot shares, the number of treasury stocks increased by 56 common stock shares as of March 31, 2018.

	Number of Shares			
	As of April 1, 2016	Changes during the year 2017		As of March 31, 2017
		Increase	Decrease	
Issued stock				
Common stock	78,183,677	—	—	78,183,677
Treasury stock				
Common stock	1,121,132	—	—	1,121,132

Detail of cash dividends for the fiscal year ended March 31, 2018

(1) Dividends paid

Resolution	Class of Shares	Total amount of Dividend		Dividend per Share		Record Date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)	(Yen)	(U.S. dollars) (Note 1)		
June 28, 2017 annual meeting of shareholders	Common stock	¥ 617	\$ 5,808	¥ 8	\$ 0.08	March 31, 2017	June 29, 2017

(2) Dividends whose record date belongs to the current year, but whose effective date falls in the following year

Resolution	Class of Shares	Total amount of Dividend		Dividend per Share		Source of dividend	Record Date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)	(Yen)	(U.S. dollars) (Note 1)			
June 27, 2018 annual meeting of shareholders	Common stock	¥ 617	\$ 5,808	¥ 8	\$ 0.08	Retained earnings	March 31, 2018	June 28, 2018

Detail of cash dividends for the fiscal year ended March 31, 2017

(1) Dividends paid

Not applicable.

(2) Dividends whose record date belongs to the current year, but whose effective date falls in the following year

Resolution	Class of Shares	Total amount of Dividend		Dividend per Share		Source of dividend	Record Date	Effective date
		(Millions of yen)	(Yen)	(Yen)	(U.S. dollars)			
June 28, 2017 annual meeting of shareholders	Common stock	¥ 617	¥ 8	¥ 8	\$ 0.08	Retained earnings	March 31, 2017	June 29, 2017

15. Contingent Liabilities

The Companies had the following guarantees of liabilities as of March 31, 2018 and 2017.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Employees (for home purchase):			
Indebtedness to financial institutions	¥ 17	¥ 21	\$ 160
Japan Biofuels Supply LLP:			
Guarantee of obligations related to overdraft facility, obligations related to deferred payment of consumption taxes on imports, and obligations related to letter of credit agreements	1,286	1,336	12,105

Financial Section

In addition to the above, the Company guarantees some part of its affiliate's obligation related to payment of the shipbuilding contract. The upper limit of the guarantee is ¥3,924 million (\$36,935 thousand) and ¥4,688 million as of March 31, 2018 and 2017, respectively. There was no obligation recognized by the affiliate as of March 31, 2018 and 2017.

16. Cash Flow Information

Reconciliation of "Cash and cash equivalents" in the consolidated statements of cash flows and "Cash and deposits" in the consolidated balance sheets as of March 31, 2018 and 2017 is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Cash and deposits	¥ 15,954	¥ 13,592	\$ 150,169
Short-term investment securities	100	100	941
Subtotal	16,054	13,692	151,111
Less: Time deposits maturing over three months	(2,621)	(100)	(24,671)
Cash and cash equivalents	¥ 13,433	¥ 13,592	\$ 126,440

17. Per Share Data

	Yen		U.S. Dollars (Note 1)
	2018	2017	2018
Net assets per share	¥ 904.00	¥ 812.80	\$ 8.51
Basic profit per share	103.11	201.19	0.97
Cash dividends per share attributable to the year	8.00	8.00	0.08

Net assets per share is computed based on the net assets available for distribution to the shareholders of capital stock and the number of shares of capital stock outstanding at the year-end.

Basic profit per share is computed based on the profit available for distribution attributable to shareholders of capital stock and the weighted average number of shares of capital stock outstanding during the year. Diluted profit per share has been omitted because no potentially dilutive instruments were outstanding during the fiscal years ended March 31, 2018 and 2017.

Cash dividends per share represent the cash dividends declared as applicable to the respective years, including dividends to be paid after the end of the year and not accrued in the accompanying consolidated financial statements.

18. Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2018 and 2017 are the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 103	¥ 300	\$ 970
Reclassification adjustments	(1)	(19)	(9)
Amount before income tax effect	102	281	960
Income tax effect	(3)	2	(28)
Total	98	283	922
Foreign currency translation adjustments:			
Amount arising during the year	(86)	(73)	(809)
Reclassification adjustments	—	—	—
Amount before income tax effect	(86)	(73)	(809)
Income tax effect	—	—	—
Total	¥ (86)	¥ (73)	\$ (809)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Remeasurements of defined benefit plans:			
Amount arising during the year	¥ 74	¥ 79	\$ 697
Reclassification adjustments	47	43	442
Amount before income tax effect	121	123	1,139
Income tax effect	—	—	—
Total	121	123	1,139
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	(431)	(388)	(4,057)
Total other comprehensive income	¥ (297)	¥ (54)	\$ (2,796)

19. Segment Information

Disclosure of segment information is omitted for the fiscal years ended March 31, 2018 and 2017 because the Companies have one segment.

(1) Related information

(a) Information on sales by products

Since the sales amount of a single product attributable to the external customers accounts for more than 90% of sales in the consolidated statements of income, disclosure of sales by products for the fiscal years ended March 31, 2018 and 2017 have been omitted.

(b) Geographic information

Since the sales and property, plant and equipment attributable to the "Japan" segment account for more than 90% of the total of all geographic segments, geographical segment information has not been presented for the fiscal years ended March 31, 2018 and 2017.

(c) Sales to major customers

Sales to major customers for the fiscal years ended March 31, 2018 and 2017 are as follows:

Name of customer	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Showa Shell Sekiyu K.K.	¥ 265,914	¥ 257,352	\$ 2,502,956
JXTG Nippon Oil & Energy Corporation	51,077	52,324	480,770

*Since there is one segment, related segment name is omitted on above table.

(2) Information of impairment losses on noncurrent assets by reporting segment

Information of impairment losses on noncurrent assets by reporting segment for the fiscal years ended March 31, 2018 and 2017 have been omitted since the Companies have one segment.

20. Quarterly Information

Quarterly financial data for the fiscal year ended March 31, 2018

	Millions of yen			Yen
	Net sales	Profit (loss) before income taxes	Profit (loss) attributable to owners of parent	Profit (loss) per share
Three months ended June 30, 2017	¥ 66,100	¥ (4,308)	¥ (4,368)	¥ (56.69)
Six months ended September 30, 2017	173,296	79	111	1.45
Nine months ended December 31, 2017	296,689	5,870	5,788	75.12
Twelve months ended March 31, 2018	423,772	8,430	7,945	103.11

Financial Section

	Thousands of U.S. Dollars (Note 1)			U.S. Dollars (Note 1)
	Net sales	Profit (loss) before income taxes	Profit (loss) attributable to owners of parent	Profit (loss) per share
Three months ended June 30, 2017	\$ 622,176	\$ (40,550)	\$ (41,114)	\$ (0.53)
Six months ended September 30, 2017	1,631,175	744	1,045	0.01
Nine months ended December 31, 2017	2,792,630	55,252	54,480	0.71
Twelve months ended March 31, 2018	3,988,818	79,349	74,784	0.97

Quarterly financial data for the fiscal year ended March 31, 2017

	Millions of yen			Yen
	Net sales	Profit before income taxes	Profit attributable to owners of parent	Profit per share
Three months ended June 30, 2016	¥ 93,075	¥ 1,926	¥ 1,550	¥ 20.12
Six months ended September 30, 2016	192,078	4,020	3,102	40.26
Nine months ended December 31, 2016	300,185	12,262	10,371	134.58
Twelve months ended March 31, 2017	419,530	17,945	15,503	201.19



Independent Auditor's Report

To the Board of Directors of Fuji Oil Company, Ltd.:

We have audited the accompanying consolidated financial statements of Fuji Oil Company, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fuji Oil Company, Ltd. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2018
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Investor Information (As of March 31, 2018)

Corporate Data

Trade Name	Fuji Oil Company, Ltd.
Date of Establishment	January 31, 2003
Head Office	Tennozu Parkside Building 5-8, Higashishinagawa 2-chome, Shinagawa-ku, Tokyo 140-0002, Japan TEL: 81-3-5462-7761 FAX: 81-3-5462-7815
Paid-in Capital	¥24,467 million
Fiscal Year-End	March 31
Employees	Non-consolidated: 430 Consolidated: 639
Principal Business	Import of crude oil, refining of oil and production, processing, storage, export and sales of petroleum products and petrochemical feedstock



Tennozu Parkside Building

Shareholder Information

Number of Shares Authorized:	200,000,000 shares
Number of Shares Issued:	78,183,677 shares
Number of Shareholders:	9,835

Principal Shareholders

Name	Number of shares held (thousands)	Percentage of total shares outstanding (%)
TEPCO Fuel & Power, Incorporated	6,839.9	8.85
Kuwait Petroleum Corporation	5,811.3	7.52
Government of the Kingdom of Saudi Arabia	5,811.3	7.52
Showa Shell Sekiyu K.K.	5,144.0	6.66
Sumitomo Chemical Company, Limited	5,051.6	6.54
Japan Trustee Services Bank, Ltd. (Trust Account)	3,741.1	4.84
Nippon Yusen Kabushiki Kaisha	2,750.8	3.56
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,160.9	2.79
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,048.3	2.65
JXTG Holdings	1,350.0	1.74
Total	40,709.4	52.72

Note: The percentage of total shares outstanding is calculated excluding treasury stocks of 966.1 thousand shares.

Composition of Shareholders by Type



Fuji Oil Company, Ltd.

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