(Translation)

Dear Shareholders:

Information to be Disclosed on the Internet upon Giving Notice of the Extraordinary General Meeting of Shareholders

Details of financial statements, etc. of Showa Shell Sekiyu K.K. for the most recent business year
(from January 1, 2017 to December 31, 2017)

Idemitsu Kosan Co.,Ltd.

Business Report
(January 1, 2017 to December 31, 2017)

We present the following summary of the Group's business operations for the 106th term, the period from January 1, 2017 to December 31, 2017.

1. Overview of the Group's position

(1) Progress and Results of the Business

Business environment

During the fiscal year under review, Japan's economy maintained an ongoing trend of gradual recovery as effects of the Abe administration's economic policies, referred to as "Abenomics," in conjunction with rising corporate earnings largely brought about by recovering exports, production and capital investment accompanying a rebound in economies overseas.

In the crude oil market, the Dubai crude oil price had been hovering in the lower US$50/bbl range from the start of the year as a result of agreement reached in December 2016 among member nations of OPEC (Organization of Petroleum Exporting Countries) and non-OPEC oil producing countries with respect to cutting production for the first time in 15 years. Subsequently in mid-year the price dropped to the lower US$40/bbl range amid increased shale oil production in the United States. From that point heading toward the year-end the price remained steady at levels above US$60/bbl amid factors emerging from the summer onward, particularly with respect to a situation marked by an increasing proportion of OPEC member nations complying with the production cuts, steady demand primarily in the United States and Asia, and a decision made to extend the agreement to cut production until the end of 2018.

In the foreign exchange markets, despite the USD/JPY rate having started the year at around ¥116 to the dollar, the yen then appreciated to the lower ¥110 to the dollar range by the end of January affected by the market reaction in association with the start of new U.S. presidency, and subsequently traded in the range from ¥109 to below ¥115 to ultimately end the year at around ¥112 to the dollar. These exchange rate trends were fueled by factors that included mounting geopolitical risk involving North Korea and speculation that the United States and the European Union may be rolling back their monetary easing policies.

Operating results

Regarding the operating results for this year, the Showa Shell Group reported consolidated net sales of ¥2,045.9 billion, an increase of 18.5% year on year.

The Group reported an operating income of ¥78.4 billion, an increase of ¥32.0 billion from the previous fiscal year, and an ordinary income of ¥92.9 billion, an increase of ¥45.1 billion year on year. This was mainly attributable to increased inventory valuation gains brought about

by the higher crude oil price, along with improvement in oil refining margins amid moves to normalize supply capacity largely through industry-wide initiatives with respect to phase 2 of refining restructuring under Japan's Act on the Promotion of Use of Nonfossil Energy Sources and Effective Use of Fossil Energy Materials by Energy Suppliers (the "Secondary Sophistication Act"). CCS ordinary income (current cost of supply basis, excluding the impact of inventory valuation) totalled ¥68.5 billion, an increase of ¥31.8 billion from the previous fiscal year.

The Group reported net extraordinary loss of ¥23.6 billion with extraordinary losses such as impairment loss and loss from securities revaluation exceeding extraordinary income such as gain on sales of noncurrent assets and subsidy. Income before income taxes and non-controlling interests was ¥69.3 billion, an increase of ¥28.6 billion year on year. As a result, net income attributable to owners of the parent after income taxes-current, income taxes-deferred and net income attributable to non-controlling interests amounted to ¥42.7 billion, an increase of ¥25.8 compared with the previous fiscal year.

Cash flows

Operating activities provided net cash of ¥47.3 billion (compared with ¥80.9 billion net cash provided in the previous fiscal year). This mainly reflects a situation where factors contributing to increases in cash, such as net income before income taxes and non-controlling interests and depreciation and amortization, outweigh factors contributing to decreases in cash, such as increases in notes and accounts receivable-trade and inventories. Investing activities used net cash of ¥9.6 billion (compared with ¥16.5 billion net cash used in the previous fiscal year). This mainly reflects a situation where factors contributing to decreases in cash, such as purchase of property, plants and equipment, outweigh factors contributing to increases in cash, such as income from the business transfer. Free cash flow, which is the total of cash flows from operating activities and cash flows from investing activities, was positive ¥37.7 billion. Financing activities used net cash of ¥38.0 billion (compared with ¥33.7 billion net cash used in the previous fiscal year), mainly reflecting a decline in interest-bearing liabilities and cash dividends paid. As of the end of the fiscal year, interest-bearing liabilities totalled ¥117.4 billion, a decrease of ¥20.2 billion compared with the end of the previous fiscal year.

Progress and business results by segment

Conditions in each of the Group's business segments were as follows.

[Oil Business]

In crude oil procurement, we worked to ensure optimal procurement for the Group's refineries, taking into account circumstances in the crude oil market. Specifically, this involved continuing to maintain our relationships with Kingdom of Saudi Arabia and other Middle East oil producers, while engaging in flexible procurement from Russia, South America and countries outside the Middle East, and taking steps to diversify our crude oil suppliers.

In production and supply, we placed top priority on ensuring safe and stable operations at our refineries while also striving to achieve optimal production levels at all of the Group's refineries in order to maximize profits by taking an agile approach in responding to trends in demand both in Japan and overseas and addressing changes in the market for our products. During the fiscal year under review, we flexibly handled product exports taking advantage of opportunities to generate revenue, yet experienced a substantial decrease year on year with respect to export volume of fuels such as gasoline, diesel and jet fuel. The decrease was partially attributable to having performed large-scale scheduled maintenance and repair work for the first time in four years at the Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd., the Group's largest refinery, and also attributable to our having begun supplying oil products and semi-finished oil products to Cosmo Oil Co., Ltd. starting from the end of March.

In domestic fuel sales, we continued to face a scenario of falling demand brought about by structural factors encompassing the aging of Japan's population and falling birth rates, widespread uptake of fuel-efficient vehicles, and a trend of companies shifting to use natural gas as a fuel for industrial applications. Under such circumstances, in order to achieve our objective of enhancing profitability in the Oil business, we tirelessly carrying measures to improve customer satisfaction, which intended to act as core strategies of "differentiating our products and services". These sales measures include those involving our "Shell V-Power" high-performance premium gasoline, the "Shell Ponta Credit Card" which enables cardholders to accumulate benefits in addition to those of the Ponta cross-industry joint reward points service which boasts one of the largest membership bases in Japan, the "Shell EasyPay" quick fueling and payment system, and a campaign involving the first nationwide tie-up with McDonald's Company (Japan), Ltd. As a result, the Company's aggregate fuel oil sales volume which includes gasoline, kerosene, diesel oil and heavy fuel oil, as well as other products, was on par with the level achieved in the previous fiscal year amid solid sales performance relative to the pace of decline in domestic demand.

In addition, we furthermore pursued opportunities involving synergies between our Oil business and electric power business during the fiscal year under review, and accordingly in September began successively expanding the geographic area of coverage with respect to our "electricity plan with gasoline price discount program (Drivers' Plan)," which is an electric power pricing plan targeting general households with drivers who make use of service stations, while at the same time carrying out new membership campaigns. Widespread expansion of our distinctive and differentiated electric power pricing plans has resulted in them gaining a very favorable reputation among our numerous customers.

With respect to our value-added products other than fuel, we have been intend to create and improve further additional value by responding to the social needs and by precisely coping with

the customer demands by enhancing the lineups of the original products which are of high quality and function. In lubricants, we have been redoubling our efforts to market products that provide substantial added value, differentiated in terms of reducing environmental loads. For instance, we have released our new “Shell Rimula R5 LE 10W-30 (CK-4)” high-performance and environmentally-friendly diesel engine oil which is a high-performance product that reduces maintenance hassles and costs, and additionally released “Shell Helix HX8 AJ-E 0W-16” gasoline engine oil for hybrid vehicles, formulated on the basis of advanced technologies enabling it to combine outstanding engine protection and improved fuel economy. In asphalt, we have also been focusing our efforts on sales of high-value-added products that help make the notion of a sustainable recycling-oriented society a reality, by leveraging our strengths as Japan’s only integrated asphalt manufacturer. For instance, we have been focusing our efforts on marketing products such as our “Meibright A” asphalt offering outstanding performance in terms of durability and safety for colored pavement that beautifully harmonizes with surrounding landscapes, and at the same time we have released our new “Reprovital 200” asphalt restoration additive that restores properties old and deteriorated asphalt while enabling repeated recycling of such materials.

In November, the Company’s lubricants business was transferred to Shell Lubricants Japan K.K., which has been established as a wholly-owned subsidiary of the Company. The new company is diligently promoting business under the new framework with the aim of enabling the business to continue to grow with customers, as well as to establish a robust business structure where customers can enjoy stable and ongoing supplies of the Company’s lubricant products. The company also has the aim of facilitating maintenance and expansion of the current supply of highly regarded products and services provided to customers in global markets by continuing to maintain and build on collaborative business relationships with the Shell Group both in Japan and overseas.

In the petrochemical business, the market for the Company’s main product, mixed xylene, was sluggish in comparison with the previous fiscal year due to effects of new and additional petrochemical plants having been built in the Asian and Middle Eastern region. However, the market for benzene and propylene was firm, underpinned by robust demand primarily in the Asian region. Despite limited operation of Yokkaichi Refinery’s toluene disproportionation process facilities which commenced commercial operations in June 2016 with the aim of increasing our production of mixed xylene and benzene, sales volume of petrochemical products remained on par with that of the previous fiscal year largely as a result of our having maximized production of benzene and propylene at other Group refineries.

In the field of research and development, we engaged in joint research with Tohoku University that succeeded in producing hexene which can be used as a gasoline component,

from non-edible biomass material. Given that hexene can be converted into hydrocarbons suitable for use as jet fuel, going forward we intend to extend such efforts to manufacturing and development of jet fuel components. As for biofuels, it appears that use of such sources of energy does not to cause changes in amounts of carbon dioxide in the atmosphere because carbon dioxide that is absorbed during the growth process of plants harvested for biofuels offsets carbon dioxide generated when such fuel is combusted. As such, next-generation biofuels produced from cellulosic biomass such as that from trees and grasses holds great promise with respect to the notion that growing such plant matter potentially would not vie with food production. Going forward, we will continue promoting research and development into processes centered on catalysts for manufacturing next-generation biofuels, with our sights set on our future as an energy company.

As a result, the Oil business reported net sales of ¥1,921.3 billion, an increase of 20.4% year on year, and operating income of ¥84.8 billion, an increase of ¥30.9 billion. CCS consolidated operating income (current cost of supply basis, excluding the impact of inventory valuation) amounting to ¥60.3 billion, an increase of ¥17.7 billion compared with the previous fiscal year.

[Energy Solutions Business]

In the solar business, we have been developing business through Solar Frontier K.K., a wholly-owned subsidiary. In that regard, we have been promoting a new business strategy that involves focusing business resources on the Japanese market where higher added value is anticipated, in light of the severe competitive environment prevailing in overseas markets.

In the domestic market, although sales prices of solar modules have continued on a downward trajectory due to ongoing decreases in electricity purchase prices under the renewable energy feed-in tariff scheme, we have been actively engaging in sales activities on the basis of our new business strategy, particularly given that we anticipate growth in demand for solar power generation for own use (*1) mainly with respect to residential applications where profitability in comparison with overseas markets remains high. As for sales of solar modules to the residential market, in July sales were launched of the new “SmaCIS” strategic product which makes it possible to achieve greater solar panel coverage by enabling panels to be mounted in a matter that conforms to the shape of roofing on detached homes in Japan, and also makes it possible to substantially reduce installation times using new types of mounts and installation methods. Meanwhile in September, we began taking orders for the “SFK Series” of solar modules featuring outstanding performance in terms of water drainage and design, and offering greater electric output at a lighter weight in comparison with conventional solar module products. With respect to sales of solar modules to the non-residential market, we widely extended our sales activities in terms of promoting the appeal of quality and made-in-Japan

reliability of CIS-based thin-film solar cells (*2). Meanwhile in May, we began taking orders for monitoring systems newly developed for low-pressure solar power plants. Moreover, we started our initiative to incorporate the demands in the solar power generation for own use in the non-residential market by giving proposals to the market. As a result of these initiatives, solar module sales volume in the domestic market during the fiscal year under review exceeded previous fiscal year levels.

In overseas markets, solar module sales volume for the overseas market abroad during the fiscal year under review underperformed those made in the previous fiscal year, as a result of sales being held down given a deteriorating competitive environment.

We also continued to promote development of our BOT (build-own-transfer) business which generates substantial added value by engaging in integrated operations covering all areas from project development and design through to financing, system construction, operation and power wholesaling, and during the fiscal year under review we sold projects approximately 180 MW total generation capacity in Japan and overseas, and consequently ensured gains on sales that were higher than those achieved in the previous fiscal year.

As for solar module production, we have been pushing forward in carrying out drastic structural reform of our production systems in order to further reduce production costs. As such, at the end of September we briefly suspended production at the Tohoku Plant (Miyagi Prefecture, nominal annual production capacity: 150 MW), and began preparing for commercial production of next-generation strategic products. Meanwhile at the end of December, we suspended production at the Miyazaki Plant (Miyazaki-shi, Miyazaki Prefecture, nominal annual production capacity: 60 MW), and consolidated all production within our main Kunitomi Plant (Kunitomi-cho, Higashi-Morokata-gun, Miyazaki Prefecture, nominal annual production capacity: 900 MW).

In the field of research and development, we have continued to improve solar module output. In that regard, in January we achieved a world record energy conversion efficiency of 19.2% for thin-film solar cells overall with respect to CIS-based thin-film solar cell sub-modules (30 cm^2). Meanwhile in November we achieved a world record energy conversion efficiency of 22.9% for thin-film solar cells overall with respect to CIS-based thin-film solar cells (approx. 1 cm^2), as a result of our joint research with the New Energy and Industrial Technology Development Organization (NEDO).

As a result of these initiatives, our solar business is gaining ground with respect to its operating results, in that its operating loss for the fiscal year under review decreased in comparison with that of the previous fiscal year.

In the electric power business, we have been working to further expand sales of low-voltage electricity for households and corporate customers. To that end, since September we have been

successively entering the respective Tohoku, Chubu, Chugoku and Kyushu region electric power supply areas, and have been deploying sales efforts in a total of five electric power supply areas, with the inclusion of Tokyo Electric Power Company's supply area which we have been serving thus far. The Company's electric power plans feature the option of enabling customers to choose gasoline payments and electricity rates that are tailored to their lifestyles. As such, we have received high marks from our customers with respect to our two plan formats, consisting of our "electricity plan with gasoline price discount program (Drivers' Plan)" targeting drivers who use service stations, and our "electricity plan with an advantage in night time as well as in day time (Home Plan)" as a favorable electricity option for households without vehicles. With respect to our extra-high voltage and high-voltage electricity sales for corporate customers, in September we entered the Kansai Electric Power Company's supply area, which is in addition to the five aforementioned electric power areas. Moreover, we have been working to ensure a more consistent earnings platform by carrying out various measures geared to building an optimal sales portfolio that involves sales through multiple channels such as retail and wholesale, while also maintaining stable and efficient operation of our own power plants. As a result of these initiatives, operating income for the fiscal year under review increased in comparison with the previous fiscal year.

As a result of these initiatives, the Energy Solutions business reported net sales of ¥114.5 billion, a decrease of 5.6% from the previous fiscal year, and an operating loss of ¥7.8 billion, an increase of ¥1.3 billion compared with the previous fiscal year.

*1 Solar power generation for own use
: This is a solar power generation whose purpose is not for sale to electricity companies at low prices, but for own use to save utility cost at home or plant etc., as well as to prepare for power outages in the wake of disasters.

*2 CIS-based thin-film solar cells
: CIS thin-film solar cells are next-generation solar modules containing the key materials of copper, indium and selenium, made using the Group's unique manufacturing technology. These CIS solar cells generate high electricity generation volume under real-world conditions, have outstanding design characteristics, and are kind on the environment, as they do not contain cadmium.

[Other Business]
The Other business covers construction work, the sale of automobile accessories, leasing of Company-owned office buildings and other businesses. In the fiscal year under review, the

segment reported net sales of ¥10.0 billion, an increase of 9.0% year on year, and an operating income of ¥1.4 billion, a decrease of ¥0.2 billion.

Procurement activities

During the fiscal period under review, the crude oil price, which had been at the lower US$50/bbl range at the beginning of the year, rose to the lower US$60/bbl range by year-end, after having gone through a phase beginning in the summer months, which resulted in higher raw materials costs. In addition, we continued to operate in a seller's market with respect to procurement involving construction and services, due to factors such as demand from post-disaster reconstruction and demand with respect to the upcoming Tokyo Olympic and Paralympic Games. Operating in that environment, the Group has been taking steps to cut costs further by means that include engaging in activities to bring about improvement in our "procurement QCD (Quality, Cost and Delivery)," improving our ratio of procurement made through competitive bidding, and turning to reverse auctions whereby a buyer sets terms and conditions of a prospective transaction, to which multiple suppliers engage in an online bidding process that involves competing with respect to offering the best price.

Health, Safety, Security, and the Environment (HSSE) Initiatives

We put the highest priority on compliance and health, safety, security and environmental (HSSE) initiatives, working to ensure they are implemented across the entire Group.

In terms of health-related initiatives during the fiscal year under review, in addition to carrying out regular medical examinations, we also implemented a new health promotion plan, which in part consisted of a core workout exercise program. With respect to prevention of mental health issues, we carried out a program that involves checking people's stress levels, and also had clinical psychologists carry out interviews and workshops. In safety initiatives, we drew up our new "Safety and Compliance Rules" as a safety rule that cope with the unsafe day-to-day work practices inconspicuously being carried out in the workplace, with the aim of achieving our goal of having zero accidents across all Group companies and business sites. Also, in order to further strengthen the Group's safety framework, we had all executives visit field sites and held practical safety education sessions at the Group's refineries. In crisis management, we held drills simulating first response to an unforeseen disaster, carried out on a non-working day with no advance notice given as to the date of the drill. In addition, we carried out comprehensive disaster drills premised on a scenario of an earthquake having directly struck the Tokyo metropolitan area in order to affirm the coordination taking place between the Kinki region alternative emergency response headquarters and the head office. In environmental initiatives, we worked to ensure strict compliance with all environmental laws and regulations, and also promoted efforts to reuse industrial water in the Group's refineries on the basis of our

“medium-term environmental action plan”, which involved maintaining high rates of water circulation with the aim of helping to bring about a sustainable water environment. We also drew up our “action plan on climate change” to help us fulfill our responsibilities to society regarding environmental conservation.

Diversity and Inclusiveness (D&I) Initiatives

The Group has long positioned Diversity and Inclusiveness (D&I) as a priority management strategy, and has been aiming to strike a balance between achieving corporate growth and enabling our individual employees to attain self-actualization. To such ends we have been hiring employees irrespective of their nationality, gender or disability status, and have also been encouraging respect for diverse values on the basis of numerous programs and initiatives in that regard.

During the fiscal year under review, we have been redoubling our efforts with respect to our “Showa Shell Women’s Network” which was launched in 2015 with the aim of further promoting empowerment of our female employees, and have formed our “team for cultivating a D&I culture” as an initiative carried out under the third phase of the Showa Shell Women’s Network, based on the notion that our greater inclusiveness will act as a wellspring for generating new solutions unique to the Group. Through these initiatives, we have been working to further instill and implement D&I practices among our entire workforce, with a focus that extends beyond conspicuous attributes of individuals to also include an emphasis on diversity with respect to their inconspicuous attributes encompassing their experiences and strengths. Moreover, having established our new “Takumi Network” which consists of our long-serving employees, we have been forging ahead in handing down the knowledge or skills of those employees to the other employees and creating a corporate culture that enables those employees to take on active roles. D&I initiatives have been extending beyond the confines of the Group, and the Company has been actively taking part in networking opportunities particularly through employee networking events with other companies in Japan and overseas. Going forward, we will accelerate the speed of our D&I initiatives to foster a company culture in which every employee can exert their full potential to contribute to the company.

SDGs Initiatives

The Group has established a cross organizational team in order to further promote our business activities based on the SDGs (*1). For creating a sustainable society, we have brainstormed to find out the challenges in our businesses that would give impacts to the economy, environment and society, and prioritized on the initiatives we would have to be taken to respond to the challenges. Moreover, we aim to improve our corporate value through providing our products, services and solutions, as well as to contribute to solve solutions for all stakeholders.

*1 SDGs
: SDGs is the acronym for “Sustainable Development Goals”. There are 17 goals and 169 concrete targets to be achieved globally by 2030 in order to create a sustainable world. SDGs cover internationally important social issues such as poverty, climate change and peace in the wide range of fields including economy, environment and society.

Business Integration with Idemitsu Kosan Co., Ltd.
The Company announced at the end of July 2015 that it had entered full-scale discussions with Idemitsu Kosan Co., Ltd. with the basic aim of achieving business integration (the “Business Integration”) based on a spirit of equal partnership. In November 2015, the two companies concluded a memorandum of understanding for the Business Integration. The Company and Idemitsu Kosan Co., Ltd. Have an important social responsibility as energy companies to provide a stable supply of oil products. Meanwhile, the domestic oil industry is facing structural issues of waning domestic demand and an oversupply of refinery facilities. Under these conditions, the two companies are advancing discussions on the Business Integration, aiming to bring their respective strengths to bear and combine their management resources to realize the highest profitability in the industry by outstripping other companies in terms of efficiency, and to become “an industry-leading player with an unparalleled competitive position.”

The Business Integration is behind schedule in terms of initial plans at this point in time due to a progress of discussions with some stakeholders etc. However, our objective to carry out the Business Integration remains unchanged, and as such we will forge ahead in pursuing discussions with Idemitsu Kosan Co., Ltd. in order to realize those objectives.

The Business Collaboration with Idemitsu Kosan Co., Ltd.: Brighter Energy Alliance
With respect to our integration with Idemitsu Kosan Co., Ltd., we strive to enhance the corporate value of both companies, thereby making the most effective use possible of the time running up to when we make the integration of our businesses a reality. To such ends, we signed an agreement in May regarding formation of the Brighter Energy Alliance to enhance and promote business collaboration between the two companies, and have otherwise been actively considering measures geared to leveraging synergies inherent in respective areas of business that overlap (the crude & marine, refining, demand-supply, logistics, sales, and corporate sectors).

Specifically, we have been moving forward with efforts that include the mutually supplying oil products and semi-finished oil products and a partially initiating operations of optimized production planning model which is being integrated at seven refineries of the two companies.

Moreover, we have been making progress on jointly allocating VLCCs (very large crude carriers), jointly purchasing materials, and mutually utilizing fuel oil shipping terminals.

As a result of these efforts, we now anticipate achievement early on of our objective cited for deriving synergies from the alliance amounting to 25 billion yen in three years. Furthermore, we are now setting our sights on achieving synergies amounting to 30 billion yen in three years.

In order to maintain harmony within the organization and among our personnel, we have started holding workshops designed to facilitate mutual understanding with respect to differences, particularly in terms of corporate cultures and approaches to work. Nearly 1,700 employees have attended those workshops so far. In addition, we have been developing an environment where employees are apt to consider potential synergies on a daily basis, to which end we have been sending employees from one company to the other in order to work on a secondment basis.

Going forward, we will keep promoting various initiatives such as those that involve integrating offices of some divisions and departments, carried out with the aim of achieving synergies from the alliance.

(2) Issues to Be Addressed

Medium-Term Business Strategy

Within fiscal 2016, we largely finished carrying out the plans of action listed in the “Medium-Term Business Action Plan (fiscal 2013 to fiscal 2017),” released in fiscal 2013 (*1), and consequently we drew up our new “Medium-Term Business Strategy (fiscal 2017 to fiscal 2021).”

Looking toward our business integration with Idemitsu Kosan Co., Ltd, the Medium-Term Business Strategy seeks to further enhance our competitive strengths by drawing up the Company’s own business strategy as an individual company, and accordingly aims to bring about new forms of growth. To such ends, the Medium-Term Business Strategy cites the three basic policies of: 1) enhancing the competitive strengths of the domestic mainstay businesses, 2) developing and promoting new business models, and 3) expanding business territory primarily in Asia-Pacific and the Middle East.

We aim to further enhance our profitability by taking action in accordance with these basic policies. In the Oil business, our aims to this end will entail enhancing our competitive strengths by developing next-generation service stations as well as further increasing the added value of our products and services, engaging in research and development, and consequently finding commercial applications, geared to helping bring about a sustainable society, and entering markets overseas through alliances with strategic partners. In the Energy Solutions business, this will involve efforts with respect to the solar business and the electric power business.

Accordingly, in the solar business we will work toward generating positive earnings early on by further improving cost competitiveness and focusing on sales to the residential market, and will also take steps to tap new markets by launching strategic next-generation products. Meanwhile, in the electric power business we will work toward diversifying and upgrading power sources and further expanding our customer platform in Japan's retail electricity business.

As noted above, we are promoting the Brighter Energy Alliance which enhances and promotes business collaboration with Idemitsu Kosan Co., Ltd., and accordingly aiming to generate maximum synergies across a wide range of fields including those involving procurement and transportation of crude oil, refining, demand-supply, logistics, and mutually utilizing oil terminals.

Through such initiatives, we will secure firm competitive strengths and a resilient earnings structure, and will steadily carry out our Medium-Term Business Strategy with a sense of speed, with the aim of realizing our Group Management Philosophy of "with our energy, we energize the future."

As we have noted above, we are currently advancing discussions with Idemitsu Kosan Co., Ltd. towards realizing the business integration. We will separately draw up the medium-term strategy of the newly integrated company after having completed integrating the business, and notify our shareholders in that regard.

Issues to be addressed in fiscal 2018

The following section presents the issues of the Group by business segment and the actions to be taken to address these issues.

[Oil Business]

In the Oil business, given that compliance with the Secondary Sophistication Act have been ensured, supply capacity in Japan is becoming normalized and oil product margins have been firm. Nevertheless, we still need to shore up profitability in our domestic mainstay businesses domestically, amid an ongoing scenario of structural issues in the form of declining domestic demand for oil products due to factors that include the aging of Japan's population and falling birth rates, widespread uptake of fuel-efficient vehicles, and momentum toward greater energy conservation. To that end, in accordance with our three basic polices listed in the Medium-Term Business Strategy, we will further enhance our competitive strengths with respect to the overall supply chain spanning from crude oil procurement to delivery, and we will take steps to create new services with respect to service stations centered on the development of a "one-to-one marketing" approach where services are proposed upon surmising the needs of each and every service station customer. Meanwhile, in the lubricants and asphalt business, we will forge ahead with respect to further increasing sales of our environmentally-friendly, high-value-added products, while also maximizing production centered on stable operations of Yokkaichi Refinery's toluene disproportionation process facilities. Furthermore, our long-term initiatives geared to building a new earnings platform will involve promoting efforts for research and

development and commercialization with sights set on helping bring about a sustainable society through biofuels and artificial photosynthetic technologies (*2), while also taking steps to expand into businesses in geographic regions primarily in the Asia-Pacific and the Middle East in the areas of refining, supply, logistics and sales, drawing on knowledge we have accumulated in our domestic business.

[Energy Solutions Business]

In the solar business, we continue to face a challenging competitive environment. Nevertheless, we anticipate that there will be relatively consistent demand particularly with respect to residential applications in the Japanese market, against a backdrop of endeavors such as the Net Zero Energy House (ZEH) support project which is promoted by Japan's Ministry of Economy, Trade and Industry (METI). As such, we will continue focusing our efforts on selling "SmaCIS" and "SFK Series" offerings, while also developing and setting the stage for production of our new-type ultra-light solar module (*3) slated for release in 2019, and concurrently pushing forward with efforts to swiftly achieve positive earnings by improving cost competitiveness through initiatives that involve consolidating manufacturing plants and further reducing selling, general and administrative expenses.

In the electric power business, domestic power demand has been tapering off amid factors that include the aging of Japan's population and falling birth rates, and momentum toward greater energy conservation. However, we feel that the deregulation of Japan's electric power market suggests sufficient room for growth ahead for competitive operators that maintain their own sources of power, such as the Company. Therefore, we will take steps to generate consistent earnings by diversifying and upgrading power sources as well as by expanding our customer platform in Japan's retail electricity business.

Drawing on the knowledge we have accumulated in the BOT (build-own-transfer) business and electric power business, we will also tap demand in electricity markets overseas which are expected to keep achieving firm growth going forward. This will involve taking part in IPP business (*4) overseas with the aim of that becoming a new engine for building an earnings platform, and taking steps to expand into businesses in geographic regions primarily in the Asia-Pacific and the Middle East.

As described above, we will concentrate all of our efforts on challenges in respective fields of business, while forging ahead in making our utmost leap forward as an "industry-leading player with an unparalleled competitive position" and a "Japan-originated new energy company," by fortifying the Brighter Energy Alliance with Idemitsu Kosan Co., Ltd., and also promoting collaboration with Saudi Aramco.

*1 Matters in the sentence of the section “(2) Issues to Be Addressed” have been presented on the basis of the Western calendar, upon promulgation in June 2017 of the Special Measures Law on the Imperial Household Law Concerning the Abdication of His Majesty the Emperor and Other Matters.

*2 Artificial photosynthetic technologies
: Artificial photosynthetic technologies are used for the synthesis of useful substances such as methane, ethylene and other hydrocarbons and alcohols, from water and carbon dioxide, using sunlight.

*3 New-type ultralight solar module
: The new-type ultralight solar modules are extremely lightweight, thin and unbreakable. They hold promise in terms of potentially developing new applications that have not been possible using conventional solar modules, particularly with respect to installing such units on building walls and vehicles.

*4 IPP Business
: IPP is an acronym for “independent power producer”, and refers a business operator who sells electric power generated using power generation facilities owned by the entity.

In conclusion, the Showa Shell Group declares that it will put the highest priority on compliance as well as on health, safety, security and environmental (HSSE) initiatives, as the basis of all business activities, and will accordingly work to ensure that such initiatives are implemented across the entire Group.

For the Showa Shell Group, compliance means more than just complying with laws and regulations. In all our business activities, we keep in mind integrity, fairness, and empathy towards others based on society’s accepted values and ethics. In order to fulfill our social responsibility and generate sustainable growth, we think it is vital to maintain consistent compliance activities across the Group based on uniform standards.

Going forward, we will continue to promote and ensure awareness of our “Code of Conduct” and “Basic Policy for Health, Safety, Security and Environment (HSSE)” across the entire Group.

The Group has established its Group Management Philosophy, “With our energy, we energize the future,” which was chosen because it paints a clear and practical picture of where the Group should be headed and its values that ought to persist going forward. Moreover, the philosophy is accompanied by the five corporate principles of: Social Responsibility, Customer Focus,

Innovation, Vitality, and Sustainable Growth. Accordingly, we will strive to meet the expectations of our shareholders by ensuring that each and every individual employee understands and embodies the philosophy and five principles.

We look forward to your continued support and encouragement with respect to the Group's business activities.

(3) Main Businesses of the Company (As of December 31, 2017)

Segment	Main Business
Oil Business	Manufacturing, Processing, Transportation, Storage, Sales and Export/Import of Petroleum Products , City Gas
Energy Solutions Business	Solar Cell and Electric Power Generation
Other Business	Construction, Automobile Supplies Sales, Lease of Real Estate Properties and others

(4) Production and Sales of the Group and the Company

1) Sales of the Group

The results of the sales of the Group during this period are described below:

Segment	105th Period (Last Period) (M Yen)	106th Period (This Period) (M Yen)	Increase/ Decrease over last year (%)
Oil Business	1,595,529	1,921,302	+20.4
Energy Solutions Business	121,300	114,554	-5.6
Other Business	9,245	10,078	+9.0
Total	1,726,075	2,045,936	+18.5

Note 1: The above amounts do not include consumption taxes.

2: The amounts for Sales in each Segment consist of the sales proceeds from unaffiliated customers.

2) Manufacturing, Purchases and Sales of the Company

The volume manufactured and purchased as well as the sales quantity of petroleum products of the Company during this period are described below:

Item		105th Period (Last Period) (1,000kl)	106th Period (This Period) (1,000kl)	Increase/ Decrease over last year (%)
Manufactured & Purchased Quantities	Manufactured	16,053	16,132	+0.5
	Purchased	10,317	11,160	+8.2
	Total	26,370	27,292	+3.5
Sales Quantities	Gasoline	9,324	9,148	-1.9
	Kerosene & Gas Oil	10,512	10,875	+3.5
	Fuel Oil	3,431	3,471	+1.2
	Others	3,274	3,785	+15.6
	Total	26,540	27,279	+2.8

Note 1: "Manufactured Quantity" represents the volume of products which the Company had the Group refineries and others manufacture in commission.

2: "Other Sales" includes LPG, naphtha, lubricants and asphalt, etc.

(5) Capital Investment in Plants and Equipment of the Group

The total investment in plants and equipment during the period was approximately 19.9 billion yen, and the principal investments are described below:

Segment	Item	Principal investments
Oil Business	Manufacturing	Maintenance, environmental and safety, energy-saving, added-value improvement measures for refineries
	Sales facilities	Maintenance, environmental and safety measures for existing service stations, Construction of self-service facilities
	Distribution	Maintenance for depots
Energy Solutions Business	Manufacturing	Maintenance for Solar cell manufacturing facilities
	Research	Repairs of solar cell research facilities

(6) Fund Raising

The Company's funding requirement is financed by cash on hand, borrowings, commercial paper and bonds, not by capital increase.

The balance of each fund-raising instrument at the end of the period was as follows:

Item	105th Period (Last Period) M Yen	106th Period (This period) M Yen
Short-term borrowings	34,292	23,715
Long-term borrowings to be repaid within a year	8,660	30,625
Bond to be repaid within a year	10,000	-
Long-term borrowings	74,741	53,116
Bonds	10,000	10,000
Total	137,693	117,456

Note : Commercial paper issued during the period had been redeemed at the end of the period.

(7) Changes in the Business Results of the Group

The results of the Group for the period under review and the three previous periods are set out below:

Division	2014 103rd Period	2015 104th Period	2016 105th Period	2017 106th Period (This Period)
Sales proceeds (M Yen)	2,997,984	2,177,625	1,726,075	2,045,936
Ordinary profit or Ordinary loss (△)(M Yen)	△16,723	△13,282	47,840	92,973
Net profit or net loss (△) after tax attributable to owners of parent (M Yen)	△9,703	△27,467	16,919	42,751
Net profit or net loss (△) per share (Yen)	△25.76	△72.93	44.92	113.51
Total assets (M Yen)	1,176,282	957,665	976,134	1,038,882

Note: Net Profit per share or net loss per share is calculated based on the average number of issued shares during the relevant period, from which the number of treasury shares is excluded.

(8) Relationships with Important Subsidiaries and Affiliates (As of December 31, 2017)

Important Subsidiaries

Company Name	Capital	Ratio of Capital Held by the Company	Main Business
Solar Frontier K.K.	5,000M Yen	100.0%	Manufacturing and Sales of Solar Cell Modules
Showa Shell Sempaku K.K.	450M Yen	100.0%	Overseas Shipping & Transportation; Vessel Chartering
K.K. Rising Sun	200M Yen	100.0%	Automobile Supplies Sales, Leasing, Insurance Agency
Shoseki Engineering K.K.	100M Yen	100.0%	Design, Construction and Inspection of Industrial Facilities
Shell Lubricants Japan. K.K.	310M Yen	100.0%	Manufacturing and Sales of Lubricants
Nihon Grease K.K.	100M Yen	99.2%	Manufacturing and Sales of Grease and Lubricant Oil
Wakamatsu Gas K.K.	470M Yen	97.8%	City Gas Business and Sales of Petroleum Products
Showa Yokkaichi Sekiyu K.K.	4,000M Yen	75.0%	Manufacturing of Petroleum Products
Toa Sekiyu K.K.	8,415M Yen	50.1%	Manufacturing of Petroleum Products

Affiliated Companies

Company Name	Capital	% of our Company's shares	Main Business
K.K. Enessance Holdings	115M Yen	45.7%	Management of LPG Sales Subsidiaries
Seibu Sekiyu K.K.	8,000M Yen	38.0%	Manufacturing of Petroleum Products
Marubeni Energy K.K.	2,350M Yen	33.4%	Sales of Petroleum Products
K.K. Ohgishima Power	5,350M Yen	25.0%	Commissioned Power Generation
Gyxis Corporation	11,000M Yen	20.0%	Manufacture, Storage, Transport, Sale and Import/Export of LPG

(9) Acquisition of the Stock of Other Corporations and Other Restructuring Activities

The Company has succeeded its lubricant business to Shell Lubricants Japan K.K., a wholly-owned subsidiary of the Company, through a company split (absorption-type) effective on November 1, 2017.

The Company has concluded the Absorption-type Company Split Agreement with Gyxis Corporation, an affiliated of the Company, effective on December 19, 2017, to succeed Gyxis's business in relation to the operation of Hekinan LPG Terminal to the Company as of July 1, 2017.

Moreover, the Company has succeeded a part of its solar cell business managed by Solar Frontier K.K., a wholly-owned subsidiary of the Company, to RS Renewables K.K., a wholly-owned subsidiary of the Company, through a company split (incorporation-type) effective on January 5, 2018.

(10) Primary Place of Business and Plants (As of December 31, 2017)

Head Office		3-2, Daiba 2-chome, Minato-ku, Tokyo (Daiba Frontier Building)
Oil Business	Branch Offices	Hokkaido Branch (Sapporo-shi) Tohoku Branch (Sendai-shi) Shutoken Branch (Minato-ku, Tokyo) Kanto Branch (Minato-ku, Tokyo) Chubu Branch (Nagoya-shi) Kinki Branch (Osaka-shi) Chugoku Branch (Hiroshima-shi) Kyushu Branch (Fukuoka-shi)
	Laboratory	Central Laboratory (Aikawa-machi, Aikou-gun, Kanagawa Prefecture) Shell Lubricants Japan. K.K., Technical Research Institute (Aikawa-machi, Aikou-gun, Kanagawa Prefecture)
	Refineries	Showa Yokkaichi Sekiyu K.K., Yokkaichi Refinery (Yokkaichi-shi, Mie Prefecture) Toa Sekiyu K.K., Keihin Refinery (Kawasaki-shi) Seibu Sekiyu K.K., Yamaguchi Refinery (Sanyo-onoda-shi, Yamaguchi Prefecture)
	Import Terminal	Niigata Import Terminal (Niigata-shi)
	Lubricant Plants	Shell Lubricants Japan. K.K., Yokohama Installation (Yokohama-shi) Shell Lubricants Japan. K.K., Kobe Installation (Kobe-shi)
	Grease Plants	Nihon Grease K.K., Yokohama Plant (Yokohama-shi) Nihon Grease K.K., Kobe Plant (Kobe-shi)
Energy Solutions Business	Solar Cell Manufacturing Plants	Solar Frontier K.K., Kunitomi Plant (Kunitomi-cho, Higashi-Morokata-gun, Miyazaki Prefecture) Solar Frontier K.K., Tohoku Plant (Ohiramura, Kurokawa-gun, Miyagi Prefecture)
	Laboratory	Atsugi Research Center (Atsugi-shi, Kanagawa Prefecture)

(11) Employment Situation of the Group and the Company (As of December 31, 2017)

a) The Group's Employment Situation

Number of Employees	Change from Previous Period
4,465	- 46

b) The Company's Employment Situation

Number of Employees		Change from Previous Period	Average Age	Average Length of Service
Male	538	- 57	45.6	20.8Years
Female	184	- 8	41.5	18.3Years
Total	722	- 65	44.6	20.1Years

Note 1: Temporary employees and seconded personnel to other companies are excluded.

2: Seconded personnel (108 persons) to the Company are included in the Number of Employees and Average Age.

(12) Main Creditors of the Group (As of December 31, 2017)

Creditor	Amount of Loan
Development Bank of Japan	50,000 M Yen
Japan Oil, Gas and Metals National Corporation	20,565 M Yen
Syndicate loan (Note 1)	10,000 M Yen
K.K. Mizuho Bank	9,000 M Yen
K.K. Bank of Tokyo-Mitsubishi UFJ	6,000 M Yen
Syndicate loan (Note 2)	4,000 M Yen
Sumitomo Mitsui Trust & Banking K.K.	2,000 M Yen
Mizuho Trust & Banking K.K.	1,000 M Yen
Mitsubishi UFJ Trust Bank K.K.	1,000 M Yen

Note 1: Syndicate loan is a loan from several financial institutions with the Development Bank of Japan as its arranger.

2: Syndicate loan is a loan from several financial institutions with the K.K. Sumitomo Mitsui Banking as its arranger.

2. Shares of the Company (As of December 31, 2017)

(1) Total Numbers of Shares Authorized 440,000,000

(2) Numbers of Shares Issued 376,850,400

(Number of Treasury Shares 169,327)

(3) Number of Shares per Unit 100

(4) Breakdown of Shareholders

Classification	Number of Shareholders		Number of Shares Held (Thousands)	
	As of Dec. 31, 2016	As of Dec. 31, 2017	As of Dec. 31, 2016	As of Dec. 31, 2017
Individuals, and others	43,597 97.41%	35,295 96.87%	42,504.2 11.28%	32,679.5 8.67%
Governments	0 0.00%	0 0.00%	0.0 0.00%	0.0 0.00%
Financial Institutions	120 0.27%	115 0.32%	80,560.0 21.38%	85,839.5 22.78%
Other Corporations	531 1.19%	484 1.33%	124,813.0 33.12%	124,602.1 33.06%
Foreign Shareholders	509 1.14%	543 1.49%	128,973.2 34.22%	133,729.3 35.49%
Total	44,757 100.00%	36,437 100.00%	376,850.4 100.00%	376,850.4 100.00%

(5) Major Shareholders (Top 10)

Name	Investment in the Company	
	Number of Shares (Thousands)	Shareholding Ratio
Idemitsu Kosan Co., Ltd	117,761.2	31.26%
Aramco Overseas Company B.V.	56,380.0	14.96
The Master Trust Bank of Japan, Ltd., (Custody Account)	24,528.8	6.51
Japan Trustee Services Bank, Ltd. (Custody Account)	13,644.5	3.62
The Shell Petroleum Company Limited	7,500.0	1.99
The Anglo-Saxon Petroleum Company Limited	6,784.0	1.80
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	4,047.0	1.07
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,772.1	1.00
Japan Trustee Services Bank, Ltd. (Custody Account 5)	3,569.2	0.94
JP Morgan Securities Japan Co., Ltd.	3,474.8	0.92

Note 1: The shareholding ratio is calculated from the number of shares issued less the number of treasury shares.

2: The ratio of shares held by the Shell Group, to which the Shell Petroleum Company Limited and the Anglo-Saxon Petroleum Company Limited belong, amounts to 3.79% in total.

3. Officers (As of December 31, 2017)

(1) Name of Directors and Audit & Supervisory Board Members

Position	Name	Responsibility	Other Important Concurrent positions
Representative Director, President, Chief Executive Officer	Tsuyoshi Kameoka		
Representative Director, Vice President	Tomonori Okada	IT Planning, HSSE, General Affairs, Public Affairs, Procurement, Corporate Planning (Including Corporate Governance), Secretariat, Accounting, Finance and Financial Risk Management	President and Representative Director, Shell Japan Trading K.K. Director, Seibu Sekiyu K.K. Representative Director, Shoseki International K.K. Representative Director, Shoseki Overseas & Investment
Director Chairman of the Board	Minoru Takeda	(Outside Director)	
Director	Takashi Nakamura	(Outside Director)	
Director	Norio Otsuka	(Outside Director)	Honorary Chairman, NSK Ltd. Chairman, the Japan Bearing Industry Association
Director	Yuko Yasuda	(Outside Director)	Managing Director, Russell Reynolds Associates Japan Inc. Outside Director, SCSK Corporation
Director	Nabil A. Al-Nuaim	(Outside Director)	President and CEO, Aramco Asia Far East (Beijing) Business Services Co. Ltd. (China)
Director	Anwar Hejazi	(Outside Director)	Representative Director, Aramco Asia Japan K.K.
Full time Audit & Supervisory Board Member	Kenji Takahashi		
Full time Audit & Supervisory Board Member	Tsutomu Yoshioka		

Audit & Supervisory Board Member	Midori Miyazaki	(Outside Audit & Supervisory Board Member)	Professor, Dean and Trustee of Chiba Shoka University, Department of Global Studies
Audit & Supervisory Board Member	Kenji Yamagishi	(Outside Audit & Supervisory Board Member)	Attorney, Risolute Law Office

Notes:

1. Chief Executive Officer is in charge of the Code of Conduct, and directly supervises Audit and Integration Preparation Office.
2. Mr. Takashi Nakamura, Mr. Norio Otsuka, Ms. Yuko Yasuda, Ms. Midori Miyazaki and Mr. Kenji Yamagishi are registered with the Tokyo Stock Exchange as Independent Directors/Audit & Supervisory Board Members.
3. Mr. Tsutomu Yoshioka, Full time Audit & Supervisory Board Members, has insight into finance, accounting and related matters based on his experience working as the Executive Officer in charge of Finance & Control Department of the Company.
4. Directors appointed or retired during this period were as follows:
   Appointed: Norio Otsuka, Yuko Yasuda, Anwar Hejazi
   Retired: Yukio Masuda, Ahmed M. Alkhunaini
   (With effect from March 30, 2017)
   Resigned: Christopher K. Gunner, Philip Choi
   (With effect from January 31, 2017)
5. Mr. Tomonori Okada, Representative Director, was appointed as Representative Director of Shoseki International K.K. and Shoseki Overseas & Investment K.K. and Mr. Norio Otsuka, Director, was appointed as Honorary Chairman of NSK Ltd. during this period. Moreover, Mr. Nabil A. Al-Nuaim, Director, was appointed as Head of Transaction Development (M&A) of Saudi Aramco (Saudi Arabia) and Mr. Anwar Hejazi, Director, was appointed as President and CEO of Aramco Asia Far East (Beijing) Business Services Co. Ltd. (China) on January, 2018.
6. Mr. Tsuyoshi Kameoka, Representative Director, and Mr. Tomonori Okada, Representative Director, retired Director of Solar Frontier K.K., Mr. Norio Otsuka, Director, retired Director, Chairman of NSK Ltd., and Mr. Nabil A. Al-Nuaim, Director, retired President and CEO, Aramco Asia Far East (Beijing) Business Services Co. Ltd. (China) during this period. Moreover, Mr. Tomonori Okada, Representative Director, retired President and Representative Director of Shell Japan Trading K.K. on January, 2018.
7. Audit & Supervisory Board Members appointed or resigned during this period were as follows:
   Appointed: Tsutomu Yoshioka
   Resigned: Kiyotaka Yamada
   (With effect from March 30, 2017)
8. Shoseki International K.K. and Shoeski Overseas & Investment K.K. are wholly owned

subsidiary. Moreover, Seibu Sekiyu is our important affiliate.

9. The Company had transactions in relation to service provisions with Shell Japan Trading K.K.
10. The Group had transactions with NSK Ltd. in relation to petroleum products sales.
11. There are no special relations between the Company and either the Japan Bearing Industry Association or Russell Reynolds Associates Japan Inc.
12. There are no special relations between the Company and SCSK Corporation. However, the Company had transactions in relation to service provisions with the subsidiary of SCSK Corporation.
13. The Company has an important business relationship and a basic agreement regarding crude oil supply with Saudi Aramco (Saudi Arabia). Its subsidiary, Aramco Overseas Company B.V., holds shares in the Company.
14. The Company and Aramco Asia Far East (Beijing) Business Services Co. Ltd. have no special relations.
15. The Company and Aramco Asia Japan K.K. have no relations other than personnel exchange.
16. There are no special relations between the Company and either Chiba Shoka University or Risolute Law Office.

17. List of Executive Officers:

Position	Responsibility	Name
Executive Officer, Oil Business COO	Oil Business Center	Masayuki Kobayashi
Executive Officer, Energy Solutions Business COO	Energy Solution Business Center, Energy Solution Business Center (Innovation Strategy)	Misao Hamamoto
Corporate Executive Officer	Legal (including Personal Data & Individual Number Protection) and Internal Control Promotion	Yuri Inoue
Corporate Executive Officer	IT Planning, HSSE, General Affairs, Public Affairs and Human Resources	Katsuaki Shindome
Corporate Executive Officer	Oil Business Center (Distribution & Operations, Import Terminal, Sales, Retail Sales, Retail EPOCH Project Team, Marketing Planning and Branch Offices)	Kenichi Morishita
Corporate Executive Officer	Oil Business Center (Lubricants & Bitumen, Commercial Sales, Research &Development and Laboratory)	Makoto Abe
Corporate Executive Officer	Procurement, Corporate Planning (including Corporate Governance) and Secretariat	Hiroshi Watanabe

Executive Officer	Oil Business Center (Crude & Marine, Oil Products, Supply, Petro Chemical Business Promotion and Manufacturing)	Satoshi Handa
Executive Officer	Energy Solution Business Center (Power Demand and Supply and Power Sales)	Minoru Yagyuuda
Executive Officer	Accounting, Finance and Financial Risk Management	Takashi Sakata
Executive Officer	Oil Business Center (Manager in Metropolitan Branch)	Nobuhiko Watanabe

(2) Remuneration paid to Directors and Audit & Supervisory Board Members:

The remuneration of the Directors and Audit & Supervisory Board Members during this period is described below:

Classification	Directors		Audit & Supervisory Board Members		Total	
	Number of Directors	Amount Paid	Number of Audit & Supervisory Board Members	Amount Paid	Number of Directors and Audit & Supervisory Board Members	Amount Paid
Remuneration Paid Based on Resolution of General Shareholders' Meeting	12 (10)	244M Yen (84)	5 (2)	75M Yen (19)	17 (12)	319M Yen (104)
Bonus	6 (4)	73 (2)	- (-)	- (-)	6 (4)	73 (2)
Sub Total		317 (86)		75 (19)		392 (106)

Notes:

1. The total cap on remuneration paid to Directors has been decided by resolution of the 102nd Annual General Meeting of Shareholders held on March 27, 2014, as not more than 45 million yen per month. The total cap on remuneration paid to Audit & Supervisory Board Members has been decided by resolution of the 96th Annual General Meeting of Shareholders held on March 28, 2008, as not more than 10 million yen per month.
2. The data above includes remunerations paid to 2 Directors who resigned on January 31, 2017 and 2 Directors and 1 Audit & Supervisory Board Member who retired at the closing

of the 105th Annual General Meetings of Shareholders held on March 30, 2017. The number of Directors and Audit & Supervisory Board Members at the end of December is 8 and 4, respectively.

3. Numbers in parenthesis show the number of or amount of remuneration paid to outside Directors or outside Audit & Supervisory Board Members.

(3) Policy regarding the determination of remuneration amount for Directors and Audit & Supervisory Board Members

We have established the Nomination and Compensation Advisory Committee as an advisory body to the Board of Directors to ensure appropriateness of remuneration paid to Directors, and objectivity and transparency in the decision-making process. Independent Directors and independent Audit & Supervisory Board Members comprise a majority of its members, and it is chaired by an independent outside Director. At its meeting held on November 5, 2013, the Board of Directors resolved and adopted the "Basic Policy for Directors' Compensation," which was formulated on the basis of reports by the Nomination and Compensation Advisory Committee. The policy provides for matters with respect to the Company's decisions on remuneration for Directors and Audit & Supervisory Board Members in three areas: 1.) ensuring transparency with respect to remuneration, 2.) reflecting results in remuneration schemes, and 3.) clarifying the process of compensating Directors and Audit & Supervisory Board Members.

Matters involving remuneration levels and composition of remuneration for respective Directors are reported to the Board of Directors after undergoing deliberations within the Nomination and Compensation Advisory Committee largely on the basis of the Basic Policy for Directors' Compensation etc., and then decided by resolution of the Board of Directors. Moreover, matters involving Director remuneration levels and the composition of such remuneration are set in accordance with respective roles and responsibilities of individual Directors, upon considering details such as remuneration levels at major domestic companies based on research conducted by specialized external organizations.

Remuneration of the Company's Directors is composed of a fixed remuneration portion and a performance-linked bonus. Fixed remuneration for Directors consists of a fixed monthly payment within the bounds of the total fixed remuneration amount determined by resolution of the 102nd General Meeting of Shareholders held on March 27, 2014, on the basis of a remuneration table categorized by rank, and in accordance with a recipient's roles and responsibilities as a Director, and his or her roles and responsibilities with respect to business execution. The performance-linked bonus is a variable form of remuneration linked to company performance. For executive directors, the bonus is determined based on assessments of 1) quantitative factors such as income generated in a respective fiscal year, and 2) qualitative factors weighing sustainable growth over the medium and long term with respect to performance in areas such as promoting the growth strategy and D&I, as well as the status of leadership development on the basis of succession plans. The bonus amount is paid after the decision at the Annual General Meeting of Shareholders, subsequent to resolution by the Board of

Directors which follows deliberations by the Nomination and Compensation Advisory Committee. The ratio of bonus is the standard remuneration composition consists of 70% fixed remuneration and 30% performance-linked bonus, but the performance-linked bonus varies depending on results of the assessment based on quantitative and qualitative elements. The performance-linked bonus for non-executive directors has been suspended as the end of fiscal 2017.

In the light of the responsibility of the Audit & Supervisory Board Members, who audit the execution of duties of the Board of Directors as the independent position, is not affected by corporate performance. Instead, it consists solely of fixed remuneration paid on the basis of an individual's position of authority with respect to auditing Directors' performance of their duties. Payment is decided subsequent to discussions among the Audit & Supervisory Board Members, and is provided within the bounds of the total amount of Audit & Supervisory Board Member remuneration determined upon resolution of the 96th Annual General Meeting of Shareholders held on March 28, 2008.

Retirement allowance to Directors and Audit & Supervisory Board Members was abolished at the closing of the 95th Annual General Meeting of shareholders held on March 29, 2007.

(4) Information relating to Outside Directors and Outside Audit & Supervisory Board Members

a) Principal Activities

Name	Attendance	Remarks at the Board Meetings and Audit & Supervisory Board
Minoru Takeda (Outside Director)	100% of the board meetings (12 out of 12 meetings)	Based on his experience in international management and knowledge about the energy industry, he provided advice regarding the Company's operations. Moreover, in order to strengthen the authority for business execution, which entails responsibility for supervising management, he has been selected as the Chairman of the Board of Directors from June 2015.
Takashi Nakamura (Outside Director)	100% of the board meetings (12 out of 12 meetings)	Based on his international experience and knowledge accumulated through his lengthy career in corporate management, he provided advice regarding the Company's operations.
Norio Otsuka (Outside Director)	100% of the board meetings (11 out of 11 meetings)	Based on his deep insight and knowledge accumulated through his lengthy career in corporate management, he provided advice regarding the Company's operations.
Yuko Yasuda (Outside Director)	100% of the board meetings (11 out of 11 meetings)	Based on her wide range of insight and considerable experience as the corporate management, she provided advice regarding the Company's operations.
Nabil A. Al-Nuaim (Outside Director)	83% of the board meetings (10 out of 12 meetings)	Based on his wide business experience relevant to the energy industry, he provided

		advice regarding the Company's operations.
Anwar Hejazi (Outside Director)	91% of the board meetings (10 out of 11 meetings)	Based on his extensive knowledge relevant to the energy industry and management experience, he provided advice regarding the Company's operations.
Midori Miyazaki (Outside Audit & Supervisory Board Member)	83% of the board meetings (10 out of 12 meetings) 100% of the Audit & Supervisory Board (13 out of 13 meetings)	She actively expressed her opinions in the Audit & Supervisory Board. Based on her broad experience and knowledge in various fields, she also provided advice regarding the Company's operations in the Board Meetings.
Kenji Yamagishi (Outside Audit & Supervisory Board Member)	100% of the board meetings (12 out of 12 meetings) 100% of the Audit & Supervisory Board (13 out of 13 meetings)	He actively expressed his opinions in the Audit & Supervisory Board. Based on his specialist viewpoint as a lawyer, he also provided advice regarding the Company's operations in the Board Meetings.

Note:

Outside Directors (Norio Otsuka, Yuko Yasuda and Anwar Hejazi) were appointed as the Company's Directors on March 30, 2017. Their activities described above happened after their appointment.

b) Summary of Liability Limitation Contract

Outside Directors (Minoru Takeda, Takashi Nakamura, Norio Otsuka, Yuko Yasuda, Nabil A. Al-Nuaim and Anwar Hejazi) and outside Audit & Supervisory Board Members (Midori Miyazaki and Kenji Yamagishi) entered into a liability limitation agreement with the Company in relation to the limitation of liability specified in Clause 1, Article 423 of Corporate Code. Amounts of liability under this agreement shall be 10,000,000 yen or the amount designated by the Corporate Code, whichever is the higher amount.

4. Accounting Auditors

(1) Names of Accounting Auditor:

PricewaterhouseCoopers Aarata LLC

(2) Remunerations to be paid to Remuneration Accounting Auditor:

Amount of Remuneration as Accounting Audit & Supervisory Board Members paid by the Company	116,700 thousands Yen
Total Amount of Remuneration paid by the Company and its Subsidiaries	176,825 thousands Yen

Notes:

1. In the audit contract between the Company and Accounting Auditor, there is no distinction between the remuneration for the audit based on Corporate Code as Accounting Auditors and that for the audit based on the Financial Instruments Exchange Law and it is not practically possible to distinguish them. Therefore, the amounts of Remuneration as Accounting Auditors paid by the Company include both of them.
2. Total Amount of Remuneration paid by the Company and its subsidiaries includes remuneration for audit on English consolidated financial statements in the Corporate Report other than those set out in Article 2, item 1 of Certified Public Accountant Law.
3. The Audit & Supervisory Board passes judgment, in accordance with Clause 1, Article 399 of the Corporate Code, concerning the value of remuneration, etc. for Accounting Auditors after conducting necessary verification to ascertain whether the details of the audit plan, the state of execution of accounting audit duties and the calculation basis for remuneration estimation, etc. of the Accounting Auditor are suitable in the light of the content and scale of our business.

(3) Policies of dismissal or denial of reappointment of Accounting Auditors:

Subject to the agreement of all Audit & Supervisory Board Members, the Audit & Supervisory Board will dismiss an Accounting Auditor if it concludes that any item of Clause 1, Article 340 of the Corporate Code applies to that Accounting Auditor. Furthermore, when we doubt the competency and trustworthiness of an Accounting Auditor, or we concluded that it is appropriate to change the Accounting Auditors due to the reason that we could expect more appropriate audit etc., the Audit & Supervisory Board will decide the content of the item regarding replacement or refusal of reappointment of the Accounting Auditors, and the Board of Directors will propose the item to a general meeting of shareholders based on the decision.

5. System to ensure directors' compliance with laws and regulations and articles of incorporation, and other systems to ensure proper business conduct, and status of operation of the systems.

(1) System to ensure directors' compliance with laws and regulations and articles of incorporation, and other systems to ensure proper business conducts (Basic Policy on Internal Control System to Ensure Business Appropriateness).

The content of the policy approved by the Board of Directors is shown below. (Revised on April 12, 2017)

1. A system to ensure that the execution of business by directors, executive officers and employees complies with laws and the Articles of Association.

a. To ensure recognition of compliance and the responsibility to society of directors, executive officers and employees, the Code of Conduct and rules regarding anti-monopoly law, Government anti-corruption and other primary laws are established, and we take measures to comply with them thoroughly.

b. Pursuant to law, the Articles of Association and company rules such as the Rules of the Board of Directors, the Board of Directors shall decide important matters such as management strategies and supervise business performance in order to fulfill their responsibility to shareholders. Moreover, the Board of Directors elects several independent officers to protect shareholders' interests, improve transparency and ensure objectivity of management.

c. The board of corporate auditors audit the maintenance and operation status of the internal control, and regularly exchange information and opinions with directors.

d. To establish and integrate a cross-functional compliance system, directors or executive officers in charge of the Code of Conduct, Risk Management Committee and a department in charge of matters regarding compliance are appointed.

e. The audit department has a direct report line to Representative Director/Group CEO, and audits the status of business execution and the validity of the internal control system of each department. The results and the subsequent improvements are reported to the Audit Committee.

f. Each executive director and executive officer is required to submit a written confirmation with regard to the implementation status of systems to ensure appropriateness of the contents of financial reports and the compliance level etc. The Representative Director/ Group CEO assesses and reports the status of internal control concerning financial reports.

g. A whistle blower system is established both inside and outside the company. Moreover, the rules to operate the system are established, prohibiting disadvantageous treatment and ensuring confidentiality of reporters.

h. A department to deal with antisocial forces is appointed and the department always pays attention to such forces. In case unreasonable demands are made by antisocial forces, we deals systematically with them and do not have any relationship with those organizations or individuals.

2. Information record management system regarding business execution by directors and executive officers.

a. Rules regarding information security and management are established. In accordance with the rules, information is created, managed and abolished appropriately depending on its category and importance.

b. Rules regarding personal information protection are provided and such information is managed and kept safely.

c. Rules regarding information disclosure are provided and a system to disclose information in a timely and appropriate manner are in place.

3. Rules and systems regarding loss-related risk management

a. After identification and analysis of various potential risks in the business environment of our group, the measures in line with their characteristics are taken and their effectiveness reviewed regularly.

b. A basic policy with regard to health, safety, security and environmental preservation is established, and a specialized department appointed for company-wide education/training activities and improvement of the control system through regular audits.

c. To continue important businesses even in case of a contingency such as disasters or accidents, a Crisis Management Plan and the Business Continuity Plan are stipulated, and regularly drilled and reviewed.

4. System to ensure efficiency in business execution by directors and executive officers

a. To enable prompt decision-making, the organization is simple without superimposed layers, and decisions on company-wide business, strategy issues and important matters of the Oil business and the Energy Solution business are made by the resolution of the Group Executive Committee to which relevant authority has been delegated by the board of directors.

b. Authorization of the Board of Directors, Group Executive Committee, each director or executive officer is clearly established, and to enable flexible decision-making, a procedure to delegate authority may be taken if necessary.

c. When making decisions on company-wide important matters, the Board of Directors, the Group Executive Committee and anyone with authorization will consult with certain committees providing advice so as to reflect opinions from an expert point of view of various related departments including corporate functional departments.

d. To enable efficient business execution, a medium term business plan, annual budget plan etc. are stipulated, and are reviewed and revised regularly.

e. To maintain a secured Information Technology environment, a system is established to enable accurate and speedy grasp/communication of management information and improve business efficiency.

5. System to ensure appropriateness of business in Group Companies

a. Group Companies share the spirit of SSSKK's Code of Conduct, Basic Policy on Health, Safety, Security and Environmental Protection and other various important basic policies and put them into practice in each company as SSSKK does.

b. To conduct businesses appropriately and efficiently while having respect for autonomy and independence of subsidiaries in their conduct of business, a basic rule and operational standards are established.

c. To ensure the appropriateness of subsidiaries' business, directors and Audit & Supervisory Board Members are seconded as necessary. Moreover, important matters regarding the business operations of subsidiaries require consultation approval of the Company in advance.

d. The department in charge of management of subsidiaries is appointed, and following identification and analysis of various potential risks in the business environment of subsidiaries, measures in line with their characteristics are taken and managed with each subsidiary. In order to oversee the risks of our whole group, the department shall report circumstances provided above properly to the Risk Management Committee.

e. Subsidiaries are the target of regular audit by the Audit Department. The Audit Department audits the status of business execution and the validity of the internal control system of subsidiaries. The results and subsequent improvements shall be reported to the Audit Committee.

f. The persons responsible for subsidiaries etc. are required to submit a written confirmation with regard to the implementation status of systems to ensure the appropriateness of the contents of financial reports and the compliance level etc. and regularly review them.

g. A whistle blower system of subsidiaries is established both inside and outside the companies. Moreover, rules to operate the system are established, prohibiting disadvantageous treatment and ensuring confidentiality of reporters.

6. Matters regarding employees to support business of Audit & Supervisory Board Members when requested.

a. The supervisory board secretariat is established to support Audit & Supervisory Board Members and assigned full-time employees.

b. The number and election of employees provided in the preceding item is decided in consultation with the full-time Audit & Supervisory Board Members.

7. Matters regarding the independence of the employees in the preceding clause from directors and ensuring effectiveness of directions from Audit & Supervisory Board Members to employees.

a. The employees who assist Audit & Supervisory Board Members follow directions and orders of Audit & Supervisory Board Members. As for nomination, changes in personnel and treatment of the employees in the preceding clause, consent by the board of corporate auditors is required.

8. Reporting System from directors or employees to Audit & Supervisory Board Members and other reporting systems to Audit & Supervisory Board Members

a. In case a report on business execution is required by Audit & Supervisory Board Members or important facts or compliance violation etc. which may affect seriously the management of our group, the directors and employees of the Company and subsidiaries or people who receive reports from those people shall report immediately to the Audit & Supervisory Board Meetings of the Company in accordance with provided rules.

b. Disadvantageous treatment of the people who report facts provided in the preceding item shall be prohibited and this fact shall be made widely known.

c. Audit & Supervisory Board Members of the Company and Audit & Supervisory Board Members of subsidiaries shall hold meetings to share information regularly to improve the audit of the group.

d. The status of report on the internal control system shall be reported regularly to the Audit & Supervisory Board Members, ensuring the confidentiality of the reporter.

9. Matters regarding policy concerned with dealing with expenses etc. arising out of the execution of Audit & Supervisory Board Members' duties.

a. In order to pay expenses etc. arising out of the execution of Audit & Supervisory Board Members' duties, a specific amount of budget shall be secured. When Audit & Supervisory Board Members request payment in advance regarding execution of their duties, the expenses shall be paid or the obligation shall be executed immediately except where the expenses or the obligation are unnecessary for their execution of their duties.

10. Other systems to ensure an effective audit by Audit & Supervisory Board Members

a. Audit & Supervisory Board Members attend important meetings and in case minutes of meetings are taken, the secretariat of the meetings sends the minutes to the board of corporate auditors.

b. The results of audits by the Internal Audit Department and accounting auditors and the subsequent improvements are reported to the board of corporate auditors. The board of corporate auditors regularly exchanges information with the Internal Audit Department and accounting auditors.

(2) Implementation status

Status of operation of the system to ensure proper business conduct

We have been conducting activities for compliance training and education based on our Basic Policy on Internal Controls for some time. Moreover, in order to ensure proper business conduct of the whole Group, we made full upgrades to the "Basic Policy on Internal Control System" for our subsidiaries and so forth in a effort to further improve the construction and operation of our internal control systems as the business group.

An overview of the status of operation of the systems for the fiscal year under review is as follows.

Status of compliance initiatives

To ensure the validity of compliance with the Code of Conduct and various rules, the Risk Management Committee, chaired by the Group CEO, is held each quarter to improve and strengthen the internal control system by discussing corporate risks and so forth.

Also, with the aim of fostering awareness and increasing knowledge of compliance, we have carried out compliance training for each employee grade and worksite, and with the aim of preventing the harassment, we carried out training for management as well as e-learning programs of which targeted all executives of the Group. In addition, through the "Room of Compliance" intranet site for providing information to the Company and Group companies, we regularly post examples of violations that occurred at other companies and other newsworthy cases, as well as sharing cases of violations among Group companies that have been reported in accordance with the "Guideline on Reporting Cases of Compliance Concerns", thereby taking measures to prevent recurrences and raising awareness to prevent similar violations from occurring within the Group.

Furthermore, based on our "Rules of the Group Companies' Help Line", "Voice of People," we have also set up the Voice of People (VOP) helplines internally and externally to provide employees with a consultation channel through a third-party institution.

Status of initiatives for loss-related risk management

With regard to the various risks facing the Group, in each division and subsidiary we follow the "Risk Management System Guideline" to identify risks, including latent risks, that may become impeding factors for our business plans and targets. Having analysed them in terms of their impact and likelihood of occurrence, we prepare the "Business Control Matrix" that clearly shows the countermeasures for each individual risk in accordance with its characteristics.

In addition, as a new initiative with respect to overseas business development, we have drawn up our "Overseas Risk Management Manual," taking into consideration the matter of handling risks that had previously not been part of our assumptions. Going forward, we will extensively make use of the manual which will act as a tool that will underpin our efforts with respect to preparing for potential crisis scenarios and addressing business-related problems.

Moreover, we hold drill exercises throughout the Company, such as comprehensive disaster response drills and safety confirmation system drills. We also regularly audit the HSSE risk and management systems in each division and subsidiary in accordance with the HSSE Management System, and use the audits to promote improvements. Furthermore, to ensure the continuity of vital business operations during unexpected events such as disasters and accidents, we have formulated a "crisis management plan (CMP)" and a "business continuity plan (BCP)" and regularly perform drills and make revisions.

Status of initiatives to ensure the appropriateness and efficiency of execution of duty by directors and executive officers

From a perspective of assuring appropriate corporate governance, we have separated the position of Group CEO, the highest authority on business execution, from the position of Chairman of the Board of Directors, which holds responsibility for supervising management.

Moreover, the Chairman of the Board of Directors is selected from among the outside directors who have no involvement with business execution. With regard to business execution, we have a Group Executive Committee to which authority is delegated by the Board of Directors, comprising the Group CEO and Vice President, and executive officers responsible for operations. This committee decides on company-wide and strategic matters, as well as important matters for the respective business centers of the Oil business and Energy Solutions business. We also ensure a system for swift decision making by clearly determining the decision-making authority of the Board of Directors, Group Executive Committee, as well as individual directors and executive officers.

Status of initiatives to ensure the validity of audits conducted by Audit & Supervisory Board Members

To ensure the validity of audits conducted by the Audit & Supervisory Board Members, the business execution divisions share information with them at important meetings such as the Board of Directors, the Group Executive Committee, and various other committees.

The audit & supervisory board members, internal audit departments and Accounting Auditors of each Group company regularly exchange information with our Audit & Supervisory Board Members to enhance the auditing of the entire Group.

Status of the initiatives to ensure the appropriateness of business execution in the Group

In line with our “Rules for Affiliates” and related rules, we determine a supervising department for each Group company and ensure proper business conduct of the Group by company-wide supervision and control. Important matters relating to operational management of subsidiaries are discussed by the supervising department and the Integrated Corporate Planning Division and given prior consent by the Company.

The supervising departments of subsidiaries in the Company identify and analyse the various risks for the subsidiaries using 1) the “Business Control Matrix” prepared by each subsidiary and 2) our own “Business Control Checklist” for self-checking of our internal control status. The departments work with the subsidiaries to come up with countermeasures in response to the risk characteristics, and review them regularly. Furthermore, in the fiscal year under review, we conducted the training for the executives of the Group companies and reconfirmed the importance of the Internal Control of the Group, and made effort for further improvement by sharing the examples of subsidiaries.

Our Internal Audit Department regularly audits our subsidiaries and reports on the results and the status of improvement to the Audit Committee, which is chaired by the Group CEO. Moreover, in addition to regular audits by the Internal Audit Department, we also dispatch Audit & Supervisory Board Members to subsidiaries to perform operational audits as well as accounting audits. In this way, we are auditing the status of implementation of measures for compliance with laws and regulations and the Articles of Association.

1. Significant accounting policies for presenting consolidated financial statements

(1) Scope of consolidation

(i) Consolidated subsidiaries (34 companies)

Showa Yokkaichi Sekiyu	TOA Sekiyu
Showa Shell Senpaku	Heiwa Kisen
Shoseki Engineering	Nippon Grease
Shoseki Kako	Rising Sun
Chuo Shell Sekiyu Hanbai	Leef Energy
Nakagawa Sekiyu	Tokyo Shell Pack
Wakamatsu Gas	Petrostar Kansai
Nissho Koyu	Genex
Nagase Sekiyu	Solar Frontier
Showa Shell Business & IT Solutions	Joyo Shell Sekiyu Sales
Solar Frontier Europe	Solar Frontier Americas
	Shell Lubricants Japan
	11 other companies

(*1) In the year ended as of 31 December 2017, 5 subsidiaries of Solar Frontier Americas have been included in the scope of consolidation because they were newly established, Joyo Shell Sekiyu Sales has been included in the scope of consolidation because the additional shares are acquired by the Company, and Shell Lubricants Japan has been included in the scope of consolidation because the Company transferred its lubricants business by executing company split.

Jonen has been excluded from the scope of consolidation and has been applied the equity method after the Company sold a part of its shares. 9 subsidiaries of Solar Frontier Americas have been excluded from the scope of consolidation because all shares of 4 subsidiaries have been sold and liquidation processes of 5 subsidiaries have been completed.

(ii) Unconsolidated companies, such as Rekisei Kagaku, are excluded from the scope of consolidation, because they are small and total assets, sales, net income after tax, retained earnings and others do not have a significant effect on the Company's consolidated financial statements.

(2) Application of equity method

(i) Affiliates accounted for by the equity method (15 companies)

Seibu Sekiyu	Mieseki Shoji
Daia Shoseki	Marubeni Energy
Shell Sekiyu Osaka Hatsubaisho	Toyotsu Sekiyu Hanbai
Central Sekiyu Gas	Shell Tokuhatsu
Niigata Joint Oil Stockpiling	Japan Oil Network
Ohgishima Power	Gyxis
Enessance Holdings	Jonen
Nagasaki Solar Energy	

(*1) Jonen has been excluded from the scope of consolidation and has been applied the equity method after the Company sold a part of its shares.

Joyo Shell Sekiyu Sales has been excluded from the scope of the equity method and has been included in the scope of consolidation because the Company acquired additional shares.

SDT Solar Power has been excluded from the scope of the equity method since all shares of the silent partnership have been sold.

(ii) Unconsolidated subsidiaries or affiliates which are not accounted for by the equity method, such as Kyoritsu Shoji, do not have a significant effect on the consolidated net income or loss, consolidated retained earnings and others, and are insignificant for the Company as a whole.

(iii) For affiliates accounted for by the equity method of which fiscal year ends differ from the consolidated fiscal year end, the financial statements of their respective fiscal year are used.

(3) The end of accounting period of consolidated subsidiaries

The end of accounting period of the consolidated subsidiaries is as follows;

The subsidiaries are consolidated by using their financial statements as of their respective fiscal year end, and necessary adjustments are made to their financial statements to reflect any significant transactions between their respective fiscal year ends and the consolidated fiscal year end which are prepared solely for consolidation purpose.

30 September	4	companies
31 October	1	company
31 December	29	companies

(4) Accounting policies

(i) Valuation methods for major assets

(a) Securities

Other securities

Marketable securities	·····	Stated at fair value as of balance sheet date. (Unrealized holding gains or losses and net of applicable taxes are reported in a separate component of equity, and the cost of securities sold is mainly calculated by the moving average method.)
Non-marketable securities	·····	Stated at cost determined by the moving average method.
(b) Derivatives	·····	Stated at fair value
(c) Inventories	·····	Stated principally at the lower of cost or market, cost being determined by the weighted average method
Products, Work In Progress, Crude and Materials		

(ii) Depreciation and amortization

(a) Tangible fixed assets (excl. lease assets)	·····	Principally by the straight-line method Depreciations are calculated by using the basis of estimated useful lives and the residual value determined by the same standards as stipulated in the Corporate Tax Law. The main refining facilities at Yokkaichi Refinery of Showa Yokkaichi Sekiyu are depreciated with an estimated useful economic life of 20 years.
(b) Intangible fixed assets (excl. lease assets)	·····	By the straight-line method Software for own-use is amortized by the straight-line method over an expected useful life of 5 years.
(C) Lease assets	·····	Finance lease transactions that do not transfer ownership Leased assets are depreciated by the straight-line method over the lease terms without the residual value.

(iii) Basis of Provisions

(a) Provision for doubtful debts	·····	Provision for doubtful debts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.
(b) Accrued bonus	·····	Accrued bonus is calculated based on the estimated bonus to be paid in respect of service rendered by employees in the current year.
(c) Provisions for Directors' bonuses	·····	Provision for Directors' bonuses is calculated based on the estimated bonus to be paid in respect of service rendered by Directors and statutory auditors in the current year.
(d) Provision for special maintenance	·····	Provision for special maintenance is provided to cover the cost of periodical repairs for machinery at oil refineries, and inspections and repairs for oil tanks under the Fire Defense Act.
(e) Provision for damages to the submarine pipeline	·····	Provision for damages to the submarine pipeline is estimated for restoration costs.

(iv) Retirement benefits

Liabilities for retirement benefits have been recorded mainly at the amount calculated based on the retirement benefit obligation and the pension plan assets as of balance sheet date. For calculating the retirement benefit obligation, the benefit formula basis has been adopted for attributing projected benefits to periods.

Prior service costs are amortized as incurred by the straight-line method over periods (mainly 13 years though 14 years), which are shorter than the average remaining years of service of the employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 13 years through 14 years), which are shorter than the average remaining years of service of the employees.

Unrecognized actuarial gain or loss and unrecognized prior service cost are recognized in the retirement benefits liability adjustments after tax effect in the accumulated other comprehensive income.

(v) Hedge accounting

(a) Hedge accounting

Deferral hedge accounting is adopted for derivatives. Interest rate swap special method is applied for interest rate swaps, where certain conditions are met.

(b) Hedging instruments and hedged items

[Hedging instruments]	[Hedged items]
Forward exchange	Foreign currencies credit and debt
Interest rate swap	Borrowings
Future and forward of crude oil and oil products	Crude oil and oil products trading

(c) Hedging policy

The Group performs hedge processing based on an internal rule, in order to avoid the risks concerning about currencies, interest rates, crude oil price and petroleum-products prices.

(d) Assessment of hedge effectiveness

Hedge effectiveness is assessed by ratio analysis, comparing the respective changes in market and cash flows of hedging instruments with those of hedging items during the period from commencement of hedging to assessment. Hedge effectiveness is not assessed, if the substantial terms and conditions of the hedging instruments and hedging items are the same and changes in market rates or cash flows are expected to perfectly be offset. Hedge assessment for any interest rate swap, which applies special method, is abbreviated as well.

(vi) Accounting for consumption taxes

Transaction subject to consumption taxes are recorded at amount exclusive of consumption taxes.

(vii) Amortization of goodwill

Goodwill is amortized by the straight-line method over periods not exceeding 20 years, which are determined in consideration of its causes. Immaterial amount of goodwill is charged in the year of acquisition.

(viii) Change in the accounting estimate

(Provision for damages to the submarine pipeline)

A change was made in the estimate for the provision to prepare for a future loss due to a submarine pipeline damage since making more precise estimate had become possible as the decision on the construction method was finalized.

Consolidated operating income, consolidated ordinary income, and income before income taxes and non-controlling interests in the year ended as of 31 December 2017 decreased by 4,405 million yen respectively as a result of the change in above.

2. Notes to consolidated balance sheet

(1) Collateral assets and secured debts

(i) Collateral assets

Buildings & Structures	9,841 million yen
Oil tanks	4,563 million yen
Machineries & Vehicles	31,844 million yen
Lands	23,442 million yen
Others	54 million yen
Total	69,746 million yen

(ii) Secured debts

Long-term debts	0 million yen
Short-term debts	1,275 million yen
Accounts payable	62,162 million yen
Total	63,437 million yen

(2) Accumulated depreciations of tangible fixed assets

842,752 million yen

Accumulated impairment losses are included in accumulated depreciations, by adopting the “Accounting standards for Impairment of Fixed Assets”.

(3) Guarantees

Guarantee for bank loan, etc.	5,028 million yen
Guarantee for employees’ housing loans	293 million yen
Total	5,321 million yen

3. Notes to consolidated profit and loss statement

Loss on valuation of investment securities

As announced in "Notice of Changes of Largest Shareholder as Major Shareholder and Other Affiliate Companies" dated 19 December 2016, The Shell Petroleum Company Limited ("SPCO") and Anglo-Saxon Petroleum Company Limited, both the subsidiaries of Royal Dutch Shell plc, transferred part of the shares in the Company held by SPCO to Idemitsu Kosan Co., Ltd. ("Idemitsu") on the same day.

As a result of the review of Japan Fair Trade Commission, they cleared the above share transfer subject to certain remedial measures being implemented by the Company and Idemitsu.

As implementation of the remedial measures for the market competition among liquefied petroleum gas primary distributors, the Company has entered into an agreement with other shareholders of Gyxis Corporation ("Gyxis"), which is an affiliate of the Company, on 19 September 2017 in which the Company agrees to transfer a part of the shares in Gyxis held by the Company to Gyxis. The Company has recorded the expected extraordinary loss of 5,468 million yen as "Loss on valuation of investment securities" and 2,124 million yen as "Loss on sales of investment securities" as a result of implementing the measures agreed in this agreement.

Fixed-asset impairment losses

Due to the recent deterioration of the business environment and a decline in profitability, there is an indicator of impairment to fixed-assets in the consolidated subsidiary, Solar Frontier. As a result of a recoverability test, an impairment loss of 6,174 million yen has been recorded as the extraordinary loss for the fourth quarter ended as of December 2017 (1 October 2017 to 31 December 2017).

4. Notes to consolidated statement of changes in net assets

(1) Issued shares

Common shares	376,850,400 shares

(2) Dividends

(i) Dividends paid

The following are determined at the annual general shareholders' meeting on 30 March 2017

Total amount of dividends	7,156 million yen
Resource of dividend	Retained earnings
Dividend per share	19 yen
Record date	31 Dec. 2016
Effective date	31 Mar. 2017

The following are determined at the Directors' meeting on 8 August 2017.

Total amount of dividends	7,156 million yen
Resource of dividend	Retained earnings
Dividend per share	19 yen
Record date	30 Jun. 2017
Effective date	11 Sep. 2017

(ii) Dividends planned to be paid after this financial year.

The Company plans to propose the agenda as to dividends paid below at the annual general shareholders' meeting of the Company to be held on 28 March 2018.

Total amount of dividends	7,910 million yen
Resource of dividend	Retained earnings
Dividend per share	21 yen
Record date	31 Dec. 2017
Effective date	29 Mar. 2018

5. Notes to financial instruments

(1) Qualitative information on financial instruments

The Showa Shell Group (the "Group") raises funds through bank borrowings and corporate bonds in accordance with the capital expenditure schedule. The Group manages temporary cash surpluses principally through bank borrowings and commercial paper.

Notes and accounts receivable-trade are exposed to credit risk in relation to customers. To address such risks, the Group monitors the credit worthiness of major customers and transactions in compliance with our Credit and Financial Risk Management Policies. Investment securities are mainly equity securities, and we quarterly monitor the fair value of listed stock.

Loans payables are mainly issued for the purpose of temporary cash surpluses and capital expenditures. The Group uses interest rate swap transactions as hedging instruments for some loans payables.

Regarding derivatives, the Group enters into forward exchange contracts to hedge the fluctuation risks arisen from accounts receivable-trade and accounts payables-trade denominated in foreign currencies. In addition, the Group enters into futures, forwards, swaps and options contracts to hedge the fluctuation risks of market price on crude oil and oil products.

The Group uses derivatives for the purpose of reducing risks of loss arisen from commodity prices, foreign currency and interest rate and does not use derivatives for speculative purposes.

(2) Fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheet, fair value and difference as of 31 December 2017 are shown in the following table.

(Unit: Millions of Yen)

	Carrying value(*)	Fair value(*)	Difference
(1) Cash & Deposits	50,380	50,380	-
(2) Notes & Accounts receivable	280,557	280,557	-
(3) Securities	9,211	9,211	-
(4) Notes & Accounts payable	(276,597)	(276,597)	-
(5) Accounts payable	(164,665)	(164,665)	-
(6) Short-term debts	(23,715)	(23,715)	-
(7) Bonds	(10,000)	(10,058)	58
(8) Long-term debts	(83,741)	(84,753)	1,011
(9) Derivative transactions	(215)	(215)	-

(*) The amounts in parentheses above represent the credit balance

Notes: Methods to determine the estimated fair values of financial instruments and others related to investment securities and derivatives transactions

(1) Cash & Deposits and (2) Notes & Accounts receivable

Since these items are settled in a short periods of time and their carrying value approximates fair value, the fair value above is represented by the carrying value.

(3) Securities

The fair value of listed stocks is based on quoted market prices. Non-marketable securities classified as other securities by the amount of 53,221 million yen are not included in the table above, because it was extremely difficult to figure out the fair value.

(4) Notes & Accounts payable, (5) Accounts payable and (6) Short-term debts

Since these items are settled in a short periods of time and their carrying value approximates fair value, the fair value above is represented by the carrying value.

(7) Bonds

The fair value of bonds is based on present value of the total of principal and interest discounted by an interest rate determined taking into account the remaining period of each bond and current credit risk. Current portion of bonds are included in bonds payable above.

(8) Long-term debts

The fair value of long-term debts is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. Current portion of long-term debts which are planned to be repaid within one year are included in long-term debts above.

(9) Derivative transactions

The fair value of derivatives is based on the proposed price by the financial institutions and on the final price of the forward market.

The fair value of interest rate swap, which applied special method, is included in the fair value of long-term debts, because these interest swaps are accounted for with long-term debts as a hedging instrument (Please refer to Items (8) above).

The value of assets and liabilities arising from derivative transactions is presented at net value, and with the amount in parentheses representing liability position.

6. Notes to investment and rental properties

(1) Qualitative information on investment and rental properties

The Company and certain consolidated subsidiaries own office buildings and rental commercial facilities for lease (including lands) in Tokyo or other areas.

(2) Fair value of investment and rental properties

(Unit: Millions of Yen)

The Carrying value	Fair value
23,077	46,815

(*1) The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.

(*2) The fair value of major properties as of the end of the current fiscal year is based on the real estate appraisal provided by the external licensed appraiser, while the fair value of other properties is estimated in accordance with appraisal standard for valuing real-estate. The fair value of insignificant properties is based on certain assessed amounts or index, which are reflecting appropriate market prices. The fair value of some buildings and others is regarded as the similar amount of carrying value.

7. Notes to Per Share Information

Net assets per share	672.71 yen
Net income per share	113.51 yen

8. Significant subsequent events

(The incorporation-type company split)

Solar Frontier K.K. (“Solar Frontier”), a wholly-owned subsidiary of the Company, has implemented the incorporation-type company split as of the effective date of 5th January 2018. Solar Frontier transfered its business to RS Renewables K.K, which is the company incorporated through the incorporation-type company splits, such as sales of solar panels in overseas, development and constitution of solar power plants construction,

planning, execution, and supervision of construction work of solar power plants, maintenance and administration of power plants, and whole business of electric utility in domestic and overseas.

There will be no effect from this incorporation-type company split to the consolidated financial statements and notes.

(Change of Accounting Period)

Showa Shell Sekiyu K.K. hereby announces that, subject to shareholder approval of a partial amendment to the Articles of Incorporation at the 106th Annual General Meeting of Shareholders to be held on 28th March 2018, it resolved to change its accounting period (closing date) at the meeting of the Board of Directors held on 14th February 2018, as described below;

1. Reason for the change of the business year

We propose to change the business year of the Company to commence on 1st April of each year and end on 31st March of the following year in order (i) to enhance dialogues with stakeholders by making it easier to compare the Company with other competitors, (ii) to promptly deal with the change of accounting standards and tax regulations, and (iii) to streamline the business operation and sustainably enhance the Company's corporate value by matching the business year with Idemitsu Kosan Co., Ltd., with whom we are working towards business collaboration as Brighter Energy Alliance.

2. Details of the change in the accounting period

Current closing date: December 31 of each year

New closing date: March 31 of each year

The 107th term, which is the elapsed period of the fiscal year change, is the period from January 1, 2018 to March 31, 2019. It is scheduled to be settled for fifteen months.

9. Other information

(Additional information)

The Company and Idemitsu Kosan Co., Ltd. (collectively, the "Companies") entered into a Memorandum of Understanding (hereinafter the "MoU") for the Business Integration based on a spirit of equal partnership (hereinafter the "Business Integration"), which shall not be legally binding, as of November 12, 2015. The Companies will discuss and formally enter into a legally binding definitive agreement (hereinafter the "Definitive Agreement") through necessary procedures including a resolution by the Board of Directors.

(1) Objectives of the Business Integration

The Companies agreed, in the MoU, to create an industry-leading player unparalleled competitive position by combining the strengths and the management resources of both companies. The new company (the "NewCo") will lead the effort of solving the industry's various structural issues with the aim at improving the lives of Japanese citizens through efficient and stable energy supply.

(2) Method of the Business Integration

The Companies have set a merger as the base structure of the Business Integration, subject to further discussions and an official agreement.

(3) Schedules of the Business Integration

The schedule of the Business Integration has been discussed further with the following target timeline: commencement of due diligence of the Companies and their subsidiaries upon signing of the MoU, followed by the signing of the Definitive Agreement incorporating the definitive details and terms, approval at the shareholders' meetings of both parties, and the launch of the new company in April 2017.

However, to secure enough time for both companies to discuss with their respective stakeholders, the Companies have decided that it is not appropriate to set the effective date of the Business Integration as 1 April 2017 pursuant to an extraordinary shareholders meeting or to specify an alternative effective date of the Business Integration. Therefore, the date of the launch of the NewCo is undecided.

(4) Name of the NewCo

The name of the NewCo is currently undetermined and is scheduled to be decided upon further discussion between the Companies.

(5) Location of the head office of the NewCo

The Companies have not yet to decide the location of the head office of the new company but are planning to find a location different from the current offices of the Companies by the effective date of or as soon as possible after the Business Integration.

(6) Structure of Board of Directors

While the structure of the Board of Directors will be decided upon further discussions between the Companies, representative directors and executive directors will consist of an equal number of representatives from each company.

(Execution of Agreement Regarding the Enhancement and Promotion of the Business Collaboration of Showa Shell Sekiyu K.K. and Idemitsu Kosan Co.,)

Showa Shell Sekiyu K.K. and Idemitsu Kosan Co., Ltd. (collectively, the "Companies" or "we") have signed an agreement on May 9, 2017 regarding formation of an alliance between both Company groups to enhance and promote business collaboration (the "Alliance") prior to the business integration of the Companies (the "Integration").

We continue to pursue the Integration, but also want to make the most use of our time prior to achievement of the Integration and realize synergies during that period in order to further enhance the corporate value of the Companies. We will form the Alliance as equal business partners, and extensively deepen our business collaboration (hereafter the "Collaboration") while restarting or accelerating the processes for the Integration.

(1) Name of the Alliance

As an alliance with leading competitiveness in Asia, we set the alliance values of the Collaboration as anticipating changes in the business environment, making continuous efforts for self-evolution and boldly striving for upcoming innovations. With that in mind, we will call the Alliance as follows: "Brighter Energy Alliance".

(2) Details of the Alliance

(i) Realizing Synergies from the Integration in the Domestic Petroleum Business

We will realize synergies through the Alliance prior to the Integration by intensively discussing and executing pursuance of synergies as part of the preparation for the Integration.

(ii) Alignment of Business Strategies in Overlapping Business Areas between the Companies

To deal with overlapping business areas after the Integration (crude oil purchase, refining, supply, logistics, sales, corporate sector), the Companies will align their strategies prior to the Integration, and discuss plans to enhance customer value and to become more efficient and competitive.

With respect to sales of products, we will not immediately change any systems of each Company and will continue to operate on each Company basis in principle for the time being.

(iii) Considering Strategies for the Alliance Group and the Integrated New Company

As an alliance, the Companies will proceed with wide-ranging and vigorous planning of initiatives that can contribute to enhancing business efficiency and competitiveness, mid- to long-term management strategies, business plans, investment plans and other initiatives through "Strategic Top-Level Meetings" comprised of the top managements of the Companies and other meetings.

(iv) Promotion of Harmonization between Personnel of the Companies

We mutually respect the differences in culture, codes of conduct, and working style between the Companies and then we aim to harmonize the personnel of the Companies by exploring culture, codes of conduct, and working style after the Integration.

(v) Development of New Services from the Perspective of Customers

We have many customers through the dealers and distributors of the Companies. We will establish a task team from a new perspective gained through the Collaboration for retail business development of new products and services in order to improve convenience and quality of services for customers.

(vi) Further Promotion of Social Contribution Activities

We will collaborate in areas of social contribution activities. We will work together on activities to contribute to the community and to develop the next generation, and will further enhance the scale of these activities.

(vii) Promotion of Initiatives to Realize a Low-Carbon Society

We will develop new measures to reduce carbon dioxide by drawing upon the various renewable energy businesses of the Companies.

(Adoption of "Implementation Guidance on Recoverability of Deferred Tax Assets")

Effective from the beginning of the first quarter of FY2017, Showa Shell Sekiyu Group ("the Group") adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26 of March 28, 2016).

(The company split of lubricants business executing the absorption-type company split)

The Company executed the absorption-type company split (such company split, the "Company Split") on November 1, 2017, by transferring the Company's lubricants business (the "Business") to Shell Lubricants Japan K.K. ("SLJ"), a wholly-owned subsidiary of the Company.

1. Outline of the transaction

(1) Name of the business subject to the transaction and its business description:

Manufacturing, storage, transporting, sales, exporting and importing of the lubricants of the Company and all other operations incidental to the business.

(2) Effective date of the business combination:

November 1, 2017

(3) Legal method of the business combination:

The absorption-type company split (simplified absorption-type split), in which the Company being the splitting company and SLJ being the succeeding company.

(4) Name of the succeeding company:

Shell Lubricants Japan K.K.

(5) Others:

As announced in the press releases "Announcement of the Basic Policy of Company Split Related to Lubricants Business" dated June 15, 2016, and "Establishment of Wholly-owned Subsidiary for Company Split Related to Lubricants Business" dated May 12, 2017, the Company executed the Company Split for the purposes of enabling the Business to continue to grow with customers, as well as to establish a robust business structure where customers can enjoy stable supplies of the Company's lubricant products, and to facilitate the maintenance and expansion of the current supply of highly regarded products and services to customers in global markets by maintaining and building on the collaborative business relationship with the Royal Dutch Shell Group both in Japan and overseas.

2. Outline of the accounting processing

The accounting of the Company is processed as an operation under common control based on “Accounting Standard for Business Combination” and “Implementation Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestitures”.

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Note

1. Notes to significant accounting policies for preparing non-consolidated financial statements

(1) Valuation method for assets

(i) Valuation method for securities

(a) Securities of subsidiaries and affiliates ····· Stated at cost determined by the moving average method

(b) Other securities

Marketable securities ····· Stated at fair value as of balance sheet date

(Unrealized holding gain or losses, net of applicable tax are reported in a separate component of equity, and the cost of securities sold is calculated by the moving average method.)

Non-marketable securities ····· Stated at cost determined by the moving average method

(ii) Valuation method for derivatives ····· Stated at fair value

(iii) Valuation method for inventories

Products, work in progress, crude, materials & stores ····· Stated principally at the lower of cost or market, cost being determine by the weighted average method

(2) Depreciation and amortization methods for fixed assets

(i) Tangible fixed assets (excluding lease asset) ····· Straight-line method

The same standard as stipulated in the Corporate Tax Law is applied to the estimated useful lives and the residual values.

(ii) Intangible fixed assets (excluding lease asset) ····· Straight-line method.

Software for own-use is amortized by the straight-line method over an expected useful life of 5 years.

(iii) Lease assets ····· Finance lease transaction that do not transfer ownership (hereinafter "ownership non-transfer finance lease")

Leased assets are depreciated by the straight-line method over the lease terms without the residual value.

(3) Basis of Provisions

(i) Provisions for doubtful debts ····· Provision for doubtful debts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

(ii) Accrued bonus ····· Accrued bonus is calculated based on the estimated bonus to be paid in respect of service rendered by employees in the current year.

(iii) Accrued bonus to Directors and statutory auditors ····· Accrued bonus to Directors and statutory auditors is calculated based on the estimated bonus to be paid in respect of service rendered by Directors and statutory auditors in the current year.

(iv) Provision for retirement benefits ····· Provision for retirement benefits is provided based on the estimated projected benefit obligation and pension assets as at the current fiscal year-end. For calculating the retirement benefit obligation, the benefit formula basis has been adopted for attributing projected benefits to periods. Prior service costs are amortized as incurred by the straight-line method over 13 years, which are shorter than the average remaining years of service of employees. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over 13 years, which are shorter than the average remaining years of service of employees.

(un-co)

(v) Provision for special maintenance	·····	Provision for special maintenance is provided to cover the cost of periodical repairs for machinery at oil refineries, and inspections and repairs for oil tanks under the Fire Defense Act.
(vi) Provision for damages to the submarine pipeline	·····	Provision for damages to the submarine pipeline is estimated for restoration costs.

(4) Hedge accounting

(i) Hedge accounting

The Company adopts deferral hedge accounting, and applies exceptional processing for the interest rate swap, where certain conditions are met.

(ii) Hedging instruments and hedged items

[Hedging instruments]	[Hedged items]
Forward exchange	Foreign currency credit and debt
Interest rate swap	Borrowings
Future and forward of crude oil and oil products	Crude oil and petroleum product trading

(iii) Hedging policy

The Company performs hedge processing based on an internal rule, in order to avoid the risks concerning about currencies, interest rates, crude priceand petroleum products price.

(iv) Assessment of hedge effect

Hedge effectiveness is assessed by ratio analysis, comparing the respective changes in market and cash flows of hedging instruments with those of hedged items during the period from commencement of hedging to assessment. Hedge effectiveness is not assessed, if the substantial terms and conditions of hedging instruments and those of hedging items are the same and changes in market rates or cash flows are expected to be perfectly offset. Hedge assessment for any interest rate swap, which applied exceptional processing, is abbreviated as well.

(5) Accounting for consumption tax

Transactions subject to consumption taxes are recorded at amount exclusive of consumption taxes.

2. Notes to changes in the accounting estimates

(Provision for damages to the submarine pipeline)

A change was made in the estimate for the provision to prepare for a future loss due to a submarine pipeline damage since making more precise estimate had become possible as the decision on the construction method was finalized.

Profit before income taxes in the year ended as of 31 December 2017 decreased by 4,405 million yen as a result of the change in above.

3. Notes to balance sheet

(1) Collateral assets and secured debts

(i) Collateral assets

Lands	6,967 million yen

(ii) Secured debts

Accounts payable	3,596 million yen

Collateral assets include those for accounts payable to Toa Oil (15,297 million yen as of 31 December 31 2017)

(2) Accumulated depreciation of tangible fixed assets 181,943 million yen

Accumulated depreciation includes accumulated impairment losses due to the application of impairment accounting.

(3) Guarantees

Guarantees for bank loan, etc.	5,028 million yen
Guarantees for employees' loans	291 million yen
Total	5,320 million yen

(4) Credits and debts against affiliated companies

Short term credits	146,987 million yen
Long term credits	17,683 million yen
Short term debts	172,296 million yen
Long term debts	757 million yen

4. Notes to profit and loss statement

(1)Transactions with affiliated companies

Operating transactions

Sales	323,820 million yen
Purchase	488,971 million yen
Non-operating transactions	5,453 million yen

(2)Other notes

Loss on valuation of investment securities

As announced in "Notice of Changes of Largest Shareholder as Major Shareholder and Other Affiliate Companies" dated 19 December 2016, The Shell Petroleum Company Limited ("SPCO") and Anglo-Saxon Petroleum Company Limited, both the subsidiaries of Royal Dutch Shell plc, transferred part of the shares in the Company held by SPCO to Idemitsu Kosan Co., Ltd. ("Idemitsu") on the same day.

As a result of the review of Japan Fair Trade Commission, they cleared the above share transfer subject to certain remedial measures being implemented by the Company and Idemitsu.

As implementation of the remedial measures for the market competition among liquefied petroleum gas primary distributors, the Company has entered into an agreement with other shareholders of Gyxis Corporation ("Gyxis"), which is an affiliate of the Company, on 19 September 2017 in which the Company agrees to transfer a part of the shares in Gyxis held by the Company to Gyxis. The Company has recorded the expected extraordinary loss of 7,306 million yen as "Loss on valuation of investment securities" as a result of implementing the measures agreed in this agreement.

5. Notes to statement of changes in net assets

The number of treasury shares at the end of the year	169,327 shares

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6. Notes to the deferred tax accounting

Main items of deferred tax assets and liabilities

(Deferred tax assets)	
Provision for retirement benefits	18,346 million yen
Impairment loss of fixed assets	10,322 million yen
Loss on liquidation on business	1,782 million yen
Loss on valuation of securities	20,678 million yen
Provision for doubtful debts	390 million yen
Loss carried forwards	25 million yen
Others	9,439 million yen
Total gross deferred tax assets	60,984 million yen
Valuation allowance	(35,283) million yen
Total deferred tax assets	25,700 million yen
(Deferred tax liabilities)	
Advanced depreciation reserve of fixed assets	6,733 million yen
Difference on valuation of investment securities	624 million yen
Others	904 million yen
Total deferred tax liabilities	8,262 million yen
Net deferred tax assets	17,438 million yen

7. Related party transactions

(1) Parent company and main shareholders of the Company, etc.

Categories	Name	Voting right	Relationship	Trade	Transaction amount (Million yen)	Accounting item	Balance (Million yen)
Main shareholder	Saudi Arabian Oil Company	Held indirectly (15.0%)	Purchase of crude & oil products	Purchase of crude & oil products	652,870	Trade creditors	45,033

Conditions and policy for decision-making for the conditions

The prices of oil products are determined by negotiations in consideration of market prices.

(Note) 1. Saudi Arabian Oil Company is a parent company of Aramco Overseas Company B.V., which is one of major shareholders of SSSKK.

2. Transactions are non-taxable and consumption tax is not included in the Balance above.

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(2) Subsidiaries and related parties, etc.

Categories	Name	Voting right	Relationship	Trade	Transaction amount (Million yen)	Accounting item	Balance (Million yen)
Subsidiary	Showa Yokkaichi Sekiyu	Direct holdings 75.0%	Consignment of oil refining, loans, concurrently serving as Directors	Payments of gasoline tax	156,825	Accounts payable	62,664
				Loans	44,518	Loan receivables	46,220
Subsidiary	Toa Oil	Direct holdings 50.1%	Consignment of oil refining, loans, concurrently serving as Directors	Payments of gasoline tax	119,347	Accounts payable	34,541
				Loans	13,807	Loan receivables	9,700
Subsidiary	Solar Frontier	Direct holdings 100.0%	Loans, concurrently serving as Directors	Loans	53,061	Loan receivables	35,000
Subsidiary	Shell Lubricants Japan	Direct holdings 100.0%	Purchase and Sales of oil products, loans serving as Directors	Loans	11,000	Loan receivables	11,000
Affiliate	Seibu Oil	Direct holdings 38.0%	Purchase of oil products, concurrently serving as Directors	Purchase of oil products	411,060	Trade creditors	44,120
				Purchase of crude oil for a third party	-	Trade debtors	15,247
Affiliate	Marubeni Energy	Direct holdings 33.4%	Sales of oil products	Sales of oil products	120,425	Trade debtors	13,682

Conditions and policies for decision-making for the conditions

1. The prices of crude oil and oil products are determined by negotiations in consideration of market prices.
   (Note) Consumption tax is included in the Balance but not included in the Transaction amount above.
2. Interest rates of loans to subsidiaries are determined by consideration of market rates.

8. Notes to per share information

Net assets per share	623.48 yen
Net income per share	127.67yen

9. Significant subsequent events

(The incorporation-type company split)

Solar Frontier K.K. (“Solar Frontier”), a wholly-owned subsidiary of the Company, has implemented the incorporation-type company split as of the effective date of 5th January 2018. Solar Frontier transferred its business to RS Renewables K.K, which is the company incorporated through the incorporation-type company splits. Transferred businesses are such as sales of solar panels in overseas, development and constitution of solar power plants construction, planning, execution, and supervision of construction work of solar power plants, maintenance and administration of power plants, and whole business of electric utility in domestic and overseas.

There will be no effect from this incorporation-type company split to the consolidated financial statements and notes.

(Change of Accounting Period)

Showa Shell Sekiyu K.K. hereby announces that, subject to shareholder approval of a partial amendment to the Articles of Incorporation at the 106th Annual General Meeting of Shareholders to be held on 28th March 2018, it resolved to change its accounting period (closing date) at the meeting of the Board of Directors held on 14th February 2018, as described below;

1. Reason for the change of the business year

We propose to change the business year of the Company to commence on 1st April of each year and end on 31st March of the following year in order (i) to enhance dialogues with stakeholders by making it easier to compare the Company with other competitors, (ii) to promptly deal with the change of accounting standards and tax regulations, and (iii) to streamline the business operation and sustainably enhance the Company's corporate value by matching the business year with Idemitsu Kosan Co., Ltd., with whom we are working towards business collaboration as Brighter Energy Alliance.

2. Details of the change in the accounting period

Current closing date: December 31 of each year

New closing date: March 31 of each year

The 107th term, which is the elapsed period of the fiscal year change, is the period from January 1, 2018 to March 31, 2019. It is scheduled to be settled for fifteen months.

10. Other notes

Listed under "9. Other Information" in the consolidated financial statement.