ANNUAL REPORT 2014

For the Year Ended March 31, 2014

JAPEX

Japan Petroleum Exploration Co., Ltd.

Corporate Introduction

Corporate Vision

JAPEX is committed to contributing to local communities through a stable supply of energy. To this end, we will undertake the following activities:

- Explore, develop, produce and deliver oil and natural gas both in Japan and overseas
- Further enhance the natural gas supply chain, supported by our own domestic infrastructures, through aggressive introduction of LNG business
- Leverage our existing technology and expertise to develop and commercialize new technology
- Make stakeholder trust our first priority while striving to achieve sustainable growth and maximize corporate value

Profile

Japan Petroleum Exploration Co., Ltd. (JAPEX) is a Japanese upstream company engaged in crude oil and natural gas exploration and production (E&P) activities both in Japan and overseas. JAPEX was founded in December 1955 as a special purpose company through a government initiative. With the primary objective of enhancing Japan's self-sufficiency ratio, JAPEX has continued to explore and produce crude oil and natural gas in Japan while expanding its activities overseas. As a result, after launching operations with zero reserves, JAPEX has since established a sound operating base underpinned by numerous new discoveries. Between 1967 and 1970, JAPEX was incorporated into the Japan Petroleum Development Corporation (JPDC) as its E&P operating body. Thereafter, JAPEX was separated and re-established as a private-sector company under the former Commercial Code in April 1970. JAPEX was listed on the First Section of the Tokyo Stock Exchange in December 2003.

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Oil and Natural Gas Business

JAPEX is engaged in projects in Japan and overseas that span the E&P value chain, from exploration, development, production and transportation to delivery.

Acquisition of Interests (Upstream)

- Gathering of Information
- Preliminary Survey
- Acquisition of Interest

JAPEX and its overseas offices are continually gathering various kinds of information through such methods as the use of specialist databases and information services as well as scout meetings for the purpose of information exchange between oil companies in order to identify promising opportunities.

Before investing, we perform technical evaluations based on publications and purchased materials and conduct a preliminary survey of the area, taking into account legal aspects, political and economic stability and geographical conditions. We also evaluate the project's economics and level of funds needed and consider strategies to diversify risk through the selection of partners.

The acquisition of interest is achieved through procedures such as international bidding and negotiation, and it is important to determine worthiness for investment through the steadfast application of due diligence* within a specified time period.

* Due diligence: Detailed examination and analysis of price, profitability risks and other factors of an opportunity in order to determine worthiness for investment

Exploration (Upstream)

- Geological Survey
- Exploration and Appraisal Wells
- Evaluation of Reserves

Exploration for oil and natural gas deposits begins with field geological surveys. Geologists head out to gather information on the geological features of each field and collect sedimentary rocks and other samples. They then conduct analyses including the fossil content and properties as source rocks and reservoir rocks for oil and natural gas.

Geophysical surveys involve probing underground features using physical techniques. One of the most effective methods is seismic surveys. In seismic surveys artificial seismic vibrations onshore and offshore are induced and the reflected waves from subsurface structures are recorded. The seismic data acquired data is processed and interpreted to determine the subsurface geological structure.

The next step is to drill an exploration well to search for oil and gas deposits at a site deemed promising based on evaluations of geological and geophysical surveys. If exploratory drilling leads to the discovery of oil or gas, additional wells are drilled in surrounding areas to evaluate and determine the extent and shape of the field, productivity and potential for development. After determining the reserve size and taking into consideration a wide range of factors, a final decision is made whether or not to proceed to commercial development.

Development and Production (Upstream)

- FEED
- Drilling of Production Wells
- Production Facility Construction
- Oil and Gas Production

If an oil or gas field is deemed to have commercial-scale reserves based on an evaluation of information gathered from the exploration and appraisal wells, a front-end engineering and design (FEED) for field development is formulated, production wells are drilled based on such design, various facilities for processing, storing and transporting the oil and natural gas are constructed, followed by the start of production.

In the production phase, a separator is used to separate the oil and natural gas from the fluid stream produced by production wells and to regulate the pressure. Natural gas is produced while carefully managing the supply-demand balance in order to match supplies with customer demand, which varies significantly depending on the season and time of day. The crude oil produced is stored in tanks within the production facility and off loaded as necessary.

Transportation, Supply and Sales (Midstream and Downstream)

- Transportation and Supply
- Sales of Gas and Oil

The natural gas produced in Japan and overseas is supplied and sold to electric power companies and industrial users via pipelines. In areas where there are no pipeline facilities, JAPEX supplies and sells liquefied natural gas (LNG) to local distribution companies (LDCs) via its LNG Satellite System, which uses tank trucks and railway tank containers.

Crude oil produced in Japan and overseas is supplied and sold mainly to petroleum refiners and trading companies via ocean shipment using oil tankers and land transport using tank trucks and pipelines.

Financial Highlights

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

					Millions of yen	Thousands of US dollars*
	2014	2013	2012	2011	2010	**2014**
For the Year:						
Net sales	**¥ 276,588**	¥ 231,086	¥ 230,638	¥ 199,651	¥ 179,752	**$2,711,647**
Cost of sales	**210,460**	172,075	174,359	144,919	125,467	**2,063,333**
Exploration expenses	**9,800**	13,086	7,805	9,798	10,396	**96,089**
Selling, general and administrative expenses	**31,692**	32,017	33,426	31,084	30,769	**310,705**
Operating income	**24,634**	13,906	15,045	13,849	13,119	**241,509**
Net income (loss)	**29,015**	(865)	17,027	10,010	17,939	**284,460**
At Year-End:						
Total assets	**¥ 663,038**	¥ 525,172	¥ 532,890	¥ 516,098	¥ 521,009	**$6,500,372**
Net assets	**496,915**	403,625	406,773	393,689	398,747	**4,871,715**
Long-term loans payable	**21,636**	24,197	26,198	26,898	24,471	**212,117**
					Yen	US dollars*
Per Share Data:						
Net assets per share	**¥7,389.62**	¥6,691.58	¥6,869.27	¥6,743.83	¥6,839.05	**$ 72.44**
Net income (loss) per share	**507.68**	(15.14)	297.92	175.16	313.88	**4.97**
Cash dividends per share (full-year)	**50.00**	40.00	40.00	40.00	40.00	**0.49**
Other Data:						
Number of employees	**1,782**	1,747	1,743	1,728	1,735	**1,782**
JAPEX Group Production Volume in the Fiscal Year (daily):					boe/d	
Natural gas (crude oil equivalent)	**26,470**	23,318	22,812	25,591	18,938	
Crude oil (including bitumen)	**21,851**	13,321	15,854	15,027	18,646	
Total	**48,321**	36,639	38,666	40,618	37,584	
JAPEX Group Proved Reserves at Fiscal Year-End:					Millions of boe	
Overseas	**193**	160	38	49	49	
Domestic	**112**	147	185	208	205	
Total	**305**	307	223	257	254	

* Exchange rate: ¥102/U.S.$1, the approximate rate of exchange at March 31, 2014.

Conversion Factors and Units

Crude oil 1 kl = 6.29 bbl

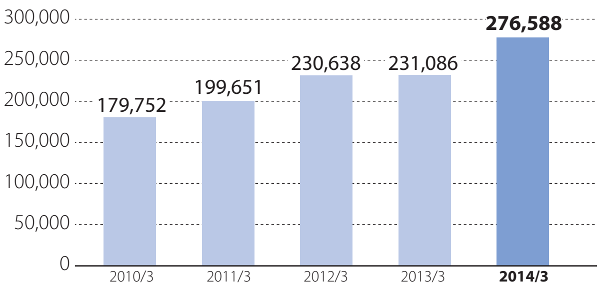
Natural gas 1,033 m^3 = 35.31 thousand cubic feet

Natural gas 1,033 m^3 = 1 kl of oil equivalent

boe: barrels of oil equivalent

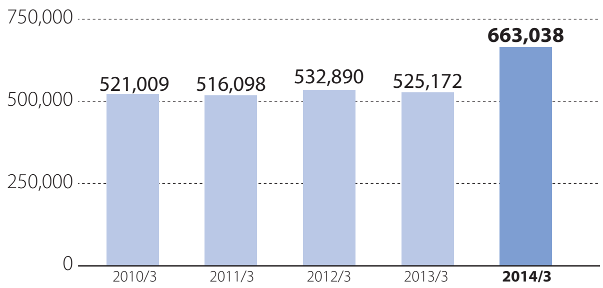
Net sales

(Millions of yen)



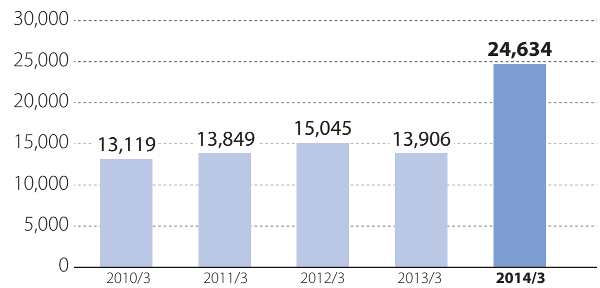
Total assets

(Millions of yen)



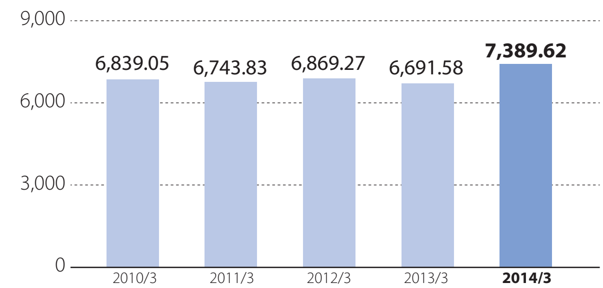
Operating income

(Millions of yen)



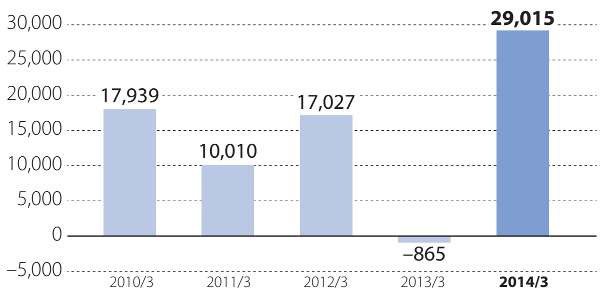
Net assets per share

(Yen)



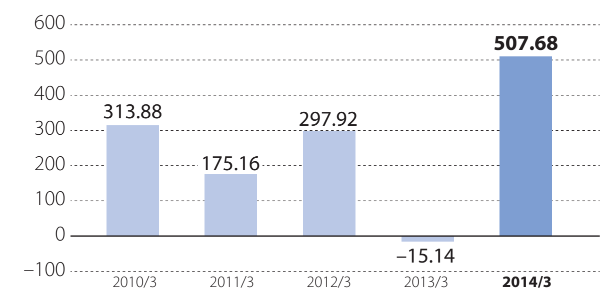
Net income (loss)

(Millions of yen)



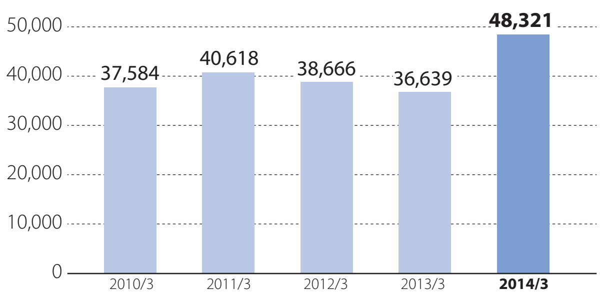
Net income (loss) per share

(Yen)



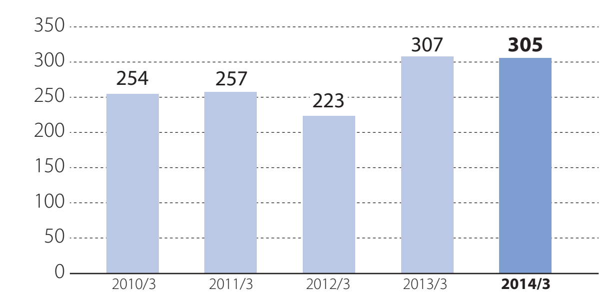
Production volume (crude oil equivalent)

(boe/d)



Proved reserves (crude oil equivalent)

(Millions of boe)



Challenging the future with innovative technologies

Osamu Watanabe

President & Chief Executive Officer

Business Environment and Operating Performance in FY2014

Business Environment

In the fiscal year ended March 31, 2014, the Japanese economy showed a moderate recovery beginning in the summer. Toward the fiscal year-end, a rush in demand intensified ahead of a consumption tax hike in April 2014.

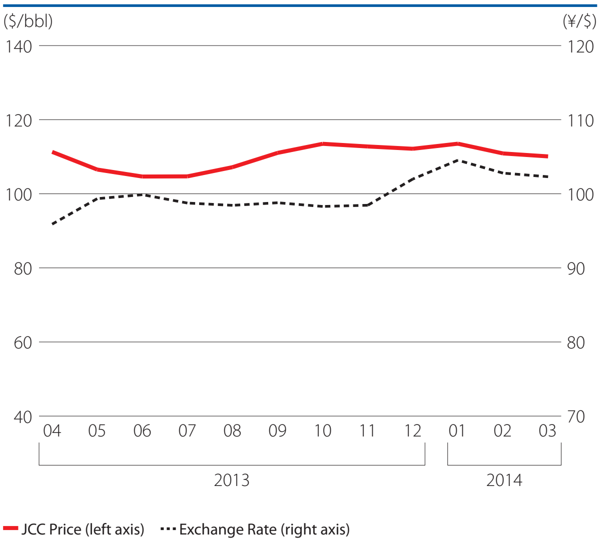
Meanwhile, improvements were seen in both corporate earnings and employment. The Japan Crude Cocktail (JCC) price*[1] began fiscal year (FY) 2014 in the range between $110 and $120 per barrel and fell to around the $105 level over the summer. The price rose again after the summer, hovering loosely in the lower $110 range.

In the currency exchange market, the yen began the fiscal year under review at around the level of ¥95 to the dollar, but after that the trend toward yen depreciation intensified. In December 2013 the yen reached the level of around ¥105 to the dollar before settling again in the lower ¥100 range at the fiscal year-end. As a result, the JAPEX Group's average crude oil sales price rose compared with the previous fiscal year.

On the other hand, amid persistently high demand for natural gas following the Great East Japan Earthquake, procuring liquefied natural gas (LNG) as a raw material remained difficult, particularly in terms of pricing, furthermore, as a result of the continued developments regarding supply infrastructure, the market environment for the JAPEX Group remained unpredictable.

Trends in the JCC Price and Exchange Rate

(April 2013–March 2014)



Operating Performance: Higher Sales and Earnings

Given this environment, the JAPEX Group endeavored to ensure safe production and transportation operations, and focused on efficient E&P in Japan and overseas in accordance with our Medium-Term Business Plan, aiming at achieving a stable, long-term supply of natural gas and crude oil essential for daily life.

Net sales for FY2014 amounted to ¥276.5 billion, an increase of ¥45.5 billion from the previous fiscal year. The main factors of increased sales were the growth of sales volume of crude oil from overseas and the rise in sales prices due to the impact of foreign exchange rates.

Operating income rose ¥10.7 billion to ¥24.6 billion as a result of a decrease in exploration expenses. Net income was ¥29.0 billion, increasing ¥29.8 billion compared to the previous fiscal year. This was mainly due to an increase investment gains by the equity-method, and a decrease in impairment loss on business assets for production operations at the Yufutsu Oil and Gas Field in Hokkaido, which was recorded under extraordinary losses in the previous fiscal year.

(Millions of yen)

	2013/3	**2014/3**	Change
Net sales	231,086	**276,588**	19.7%
Operating income	13,906	**24,634**	77.1%
Net income (loss)	(865)	**29,015**	—
Net assets	403,625	**496,915**	23.1%
Total assets	525,172	**663,038**	26.3%
Equity ratio	72.8%	**63.7%**	—

*1. The JCC price refers to the average price of customs-cleared crude oil imports into Japan, including the cost of insurance and freight. JAPEX's domestic crude oil price is linked to the JCC price. The JCC price is also a key benchmark for imported LNG prices.

On Track to Achieving the Targets of the Medium-Term Business Plan

In May 2011, the JAPEX Group announced a Medium-Term Business Plan*2, covering the five years from FY2012 through FY2016. The plan identifies the E&P*3 business, the Domestic natural gas business, and the Environment and innovative technology business as the three major basic policies constituting our basis strategy for business expansion. We have been making steady progress on each of these policies.

In our first policy E&P business, we plan to increase production volume and proved reserves by shifting exploration and development investment overseas. By pursuing this plan, JAPEX will be able to increase its consolidated daily production to 70,000 barrels of crude oil equivalent by the end of FY2016. In addition, JAPEX aims to expand its proved reserves to 450 million barrels of crude oil equivalent by FY2021.

Under our current Medium-Term Business Plan, we are making steady progress on initiatives to prioritize the allocation of investment funds overseas. Notably, our investment ratio for overseas business has reached 70%. As a result of these investments, our core overseas have made steady progress. For example, the TSB Gas Field in the Kangean Block of Indonesia began commercial production of natural gas at the end of May 2012, and the Garraf Oil Field in Iraq began production of crude oil at the end of August 2013. At the Oil Sands Expansion Project in Canada, we made a final investment decision in December 2012 to expand production, currently at 6,000 b/d, to a maximum of 30,000 b/d.

Furthermore, in Canada, we newly acquired shale gas interests in British Columbia in April 2013, and are aiming to export the gas produced as LNG to Japan in 2019. By combining the import of Canadian LNG and our domestic natural gas, we intend to rigorously promote our domestic natural gas business.

Meanwhile in Japan, in order to compensate for the decline in production capacity at the Yufutsu Oil and Gas Field in Hokkaido, we are making progress on domestic exploration initiatives, such as pursuing exploration and the possibility of developing the shallow crude oil formation in Hokkaido's Yufutsu area. In addition, we drilled delineation wells at the Katakai Gas Field in Niigata Prefecture, with successful production tests for oil and natural gas. In Akita, we started to produce Japan's first commercial tight oil in April 2014.

As a result of the foregoing initiatives, JAPEX is now on track to achieve its targets for production volume and proved reserves set forth in the Medium-Term Business Plan ahead of schedule. We are confident that we will be able to expand our earnings base and achieve further business growth by pushing ahead with these projects.

With regard to our second policy Domestic natural gas business, we are currently constructing an LNG terminal at the Soma Port in Fukushima Prefecture. This terminal is scheduled to be linked to our existing infrastructure, including the pipeline between Niigata and Sendai. We plan to supply the aforementioned imports of Canadian LNG to the domestic gas market. Our intention is to further strengthen our integrated upstream to downstream natural gas supply system which forms our earnings base, by linking our international and domestic initiatives.

*2. Please refer to the news release of May 13, 2011.
*3. E&P: Exploration and Production—exploration, development, production and sales of oil and natural gas

Phase 1: Shift to Overseas Investment

Future investment ratios of exploration and development investment overseas

Approx. 30% ➡ **Approx. 60%**

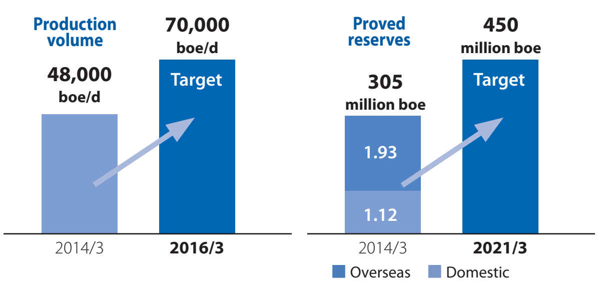
FY2007–2011 | **FY2012–2016**

Phase 2: Increase production volume

Steady production shift and earnings expansion with projects in Canada, Iraq, etc.

Phase 3: Sustain and increase proved reserves

Expansion through re-investment of earnings obtained from increased production volume



Note 1: The aforementioned production volume and reserves are oil equivalents.
Note 2: The aforementioned proved reserves are equivalent to the JAPEX Group's interest.

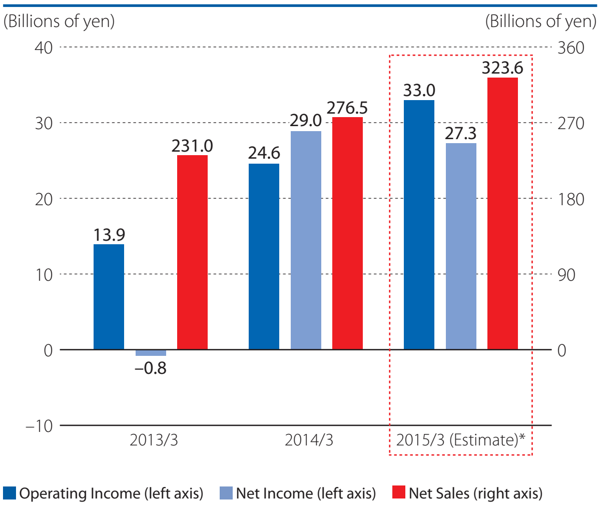
As for our third policy, Environment and innovative technology business, our top priority is to pursue research and development of technology for methane hydrate development, which is being led by the Japanese government. JAPEX was commissioned to be the project operator for the first offshore production test (gas production test) implemented in March 2013 and played a key role in these tests, producing the world's first methane gas from marine resources. JAPEX will continue to play a leading role in research for the development of Japan's methane hydrate resources.

The JAPEX Group also plans to continue its active participation in government projects related to CCS*4 in order to accumulate technologies aimed towards eventual commercialization. In addition, we will remain actively engaged in the geothermal and the solar power generation businesses.

JAPEX will incorporate the technologies and expertise obtained through these initiatives into our business model, with the aim of developing new earnings streams.

*4 CCS: Carbon dioxide Capture and Storage

FY2015 Business Forecast



* The estimates are based on JAPEX's announcement on May 12, 2014.

Business Outlook for FY2015

For FY2015, we are projecting net sales of ¥323.6 billion, an increase of ¥47.0 billion compared to the previous fiscal year. Operating income is forecast to increase ¥8.4 billion to ¥33.0 billion, based on lower exploration expenses and higher earnings from an increase in crude oil from overseas.

Net income is projected to decline by ¥1.6 billion to ¥27.3 billion, mainly based on expectations of lower equity method investment gains and higher income taxes, despite the anticipated positive effect from the absence of impairment loss on business assets recorded in the previous fiscal year in relation to production operations at the Yufutsu Oil and Gas Field in Hokkaido.

To Our Shareholders and Investors

JAPEX is committed to maintaining long-term, stable dividends and to increasing shareholder value by securing continuous corporate growth through the steady implementation of its Medium-Term Business Plan. Moreover, recognizing that CSR activities such as initiatives toward society and the environment, HSE, corporate governance, are important prerequisites for sustainable growth, we will conduct business activities that can contribute to the global environment and local communities through the system promotion of such activities.

We look forward to the continued support of our stakeholders as we seek to achieve these objectives.

September 2014

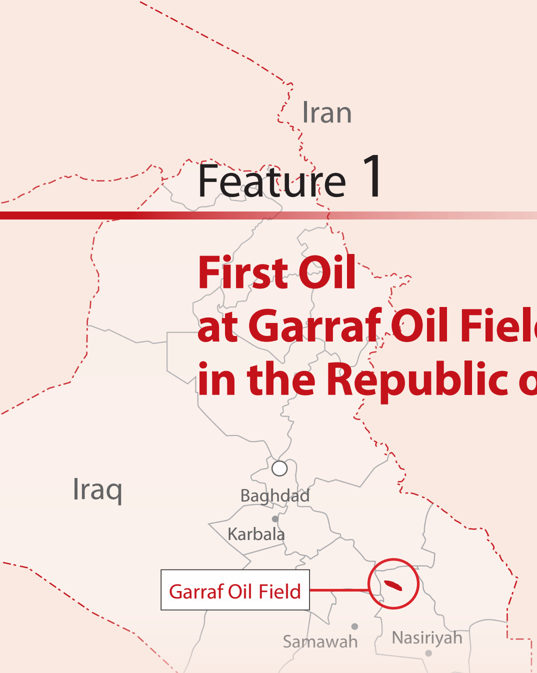
Osamu Watanabe
President & Chief Executive Officer

Crude Oil Price (JCC Price) and Exchange Rate Assumptions Applicable to FY2015

	FY2013 (Actual)	FY2014 (Actual)	**FY2015 (Estimate)***
Crude oil price: ($/bbl)	114.67	110.51	**100.00**
Exchange rate: (¥/$)	81.71	99.31	**100.00**

Feature 1

First Oil at Garraf Oil Field in the Republic of Iraq



Crude Oil Production Starts on August 31, 2013

On August 31, 2013 local time (September 1, Japan Standard Time), first oil was achieved at the Garraf Oil Field in the Republic of Iraq, which is being developed by JAPEX through subsidiary Japex Garraf Ltd., together with Malaysian state-owned oil company PETRONAS and Iraqi North Oil Company. Later on September 21, a ceremony was held to commemorate the achievement of first oil, with the president of JAPEX, senior management of PETRONAS, Japanese Embassy officials and other distinguished guests in attendance.

Targeting Production of 230,000 Barrels of Oil Per Day (b/d) in 2017

The Garraf Oil Field is located in Thi Qar Province in southern Iraq, approximately 100 km northeast of Samawah, where Japan Ground Self Defense Force personnel were deployed after the Iraq war to assist with reconstruction efforts. The JAPEX took note of the Garraf Oil Field, which had been left undeveloped since being discovered in 1984, and began surveying the field in 1996. Thereafter, we maintained a relationship of trust with the Iraqi Ministry of Oil, even after our activities were interrupted by the Iraq War. In December 2009, PETRONAS and JAPEX jointly secured the winning bid under the second international round of petroleum licensing by the Iraqi Ministry of Oil, and were awarded the exploration and production rights to the Garraf Oil Field. JAPEX proceeded with development works with the project operator PETRONAS, leading to the start of production at around 35,000 b/d. Continuing the close cooperation between the two companies, PETRONAS and JAPEX are targeting production of 230,000 b/d by 2017. We will continue our efforts for safe and steady development and production operations at the oil field, while considering various options for the crude oil to be lifted by Japex Garraf Ltd., including the possibility of bringing the export oil to Japan in order to contribute to our country's stable supply of oil.

As a Bridge between Iraq and Japan

The Garraf Oil Field development and production project represents a long-term commitment of more than 20 years. As such, JAPEX recognizes that establishing strong relationships with the local community is a critical priority. With this in mind, JAPEX has been working together with PETRONAS and other parties to conduct activities such as opening a mobile healthcare clinic, renovating elementary schools, establishing and operating the Garraf Vocational Training Center (GVTC), and building a soccer field. As a member of Iraqi society, we will continue contributing to the reconstruction of Iraq, the advancement of the oil industry and the development of local communities. By continuing its activities in these areas, JAPEX aims to become a bridge linking Iraq and Japan.

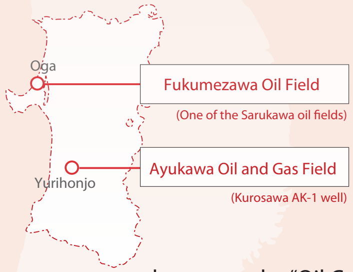
Current Production Operations

As of September 2014, the Garraf Oil Field continues to produce around 80,000–90,000 b/d. Although the security situation in northern Iraq has deteriorated since June 2014, production operations at the Garraf Oil Field have remained stable as it is located in the southern part of the country.

Feature 2

Japan's First Commercial Production of Tight Oil

—Onnagawa Formation in Akita Prefecture—



Akita Prefecture was once known as the "Oil Country" of Japan and played a key role in the country's years of high economic growth from the mid-1950s to the 1960s. JAPEX is presently actively developing and producing crude oil and natural gas in Akita Prefecture.

Commercial Production has started at the Ayukawa Oil and Gas Field in the Onnagawa Tight Oil Formation

In Akita Prefecture, the presence of crude oil has been confirmed through numerous wells in the past. However, commercial oil production was ruled out in many oil formations due to the difficulty of extracting oil with conventional technology. One prime example is the Onnagawa formation, which is distributed widely across Akita Prefecture.

Taking note of the progress in the development of shale oil in the Monterey formation in California in the United States, JAPEX decided to start a demonstration experiment targeting at the Onnagawa formation, similar in composition to the Monterey formation, applying technology used to develop the Monterey formation.

In October 2012, JAPEX performed acid treatment*1 tests at the Onnagawa formation by utilizing the existing Kurosawa AK-1 well in the Ayukawa Oil and Gas Field in Yurihonjo City, and successfully extracted Japan's first tight oil (shale oil). Following several tests and other procedures, we commenced full-scale commercial production of tight oil on April 1, 2014 at around 35 kl/day. JAPEX will continue working to acquire knowledge of the Onnagawa formation in the Ayukawa Oil and Gas Field and pursue further opportunities to develop tight oil formations.

*1 Acid treatment: A well-stimulation technique for increasing the intrinsic productivity of an oil formation, in which formation damage is removed mainly by injecting acid into the oil formation.

Demonstration Experiment Begins at the Onnagawa Tight Oil Formation of the Fukumezawa Oil Field

In May 2014, we began a demonstration experiment in the Onnagawa tight oil formation of the Fukumezawa Oil Field, adjacent to the Sarukawa Oil Field in Oga City, Akita Prefecture. We applied multistage fracturing*2 using a horizontal well, a technique that is widely applied in shale gas and oil development in North America. We completed the horizontal well drilling work in July and expect to be able to start fracturing operations this autumn.

If the demonstration experiment is successful, not only will the prospect for increased production of crude oil and natural gas at the Fukumezawa Oil Field be enhanced it will also contribute greatly to our acquisition of knowledge on the development of tight oil of the Onnagawa formation, which extends widely across Akita Prefecture.

*2 Fracturing: A well-stimulation method that increases productivity by injecting a high-pressure fluid into a wellbore to create cracks (fractures) in the target formation. The fractures are filled with sand and other hydraulic fracturing proppants to hold the fractures open and to form an opening for oil and gas to flow out from the formation.

Aiming to Expand Reserves both in Japan and Overseas

As energy sources continue to diversify worldwide, tight oil development in Japan will provide an important source of energy as an integral part of the country's energy mix. We will continue to pursue the full potential of tight oil development in Akita Prefecture by proceeding with all aspects of this development work while doing our utmost to implement environmental measures. We will also continue to expand our oil and gas reserves both in Japan and overseas.

(For details on this feature article, please see JAPEX's news releases issued on July 25, 2013 and April 7, 2014.)

Glossary

What is tight oil?

Tight oil refers to crude oil trapped in tight oil formations. Previously, tight oil was left untouched as it was difficult to extract from the ground. However, technological innovation has now made extraction of tight oil economically feasible. The most well-known form of tight oil is shale oil, which is crude oil trapped in the shale layer. For the Akita and Onnagawa projects, JAPEX uses the term "tight oil," which is more broadly defined and more commonly used outside Japan.

Review of Operations

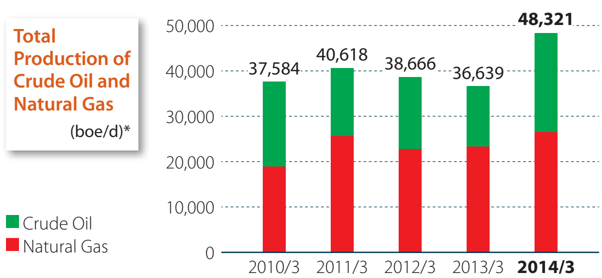
E&P Business

Effective E&P and the Discovery of New Oil and Gas Reserves

The exploration, development, production and sales of oil and natural gas constitutes the backbone of the JAPEX Group's business. It is important that the Group expands its framework for ensuring the stable, long-term supply of crude oil and natural gas by maintaining and expanding reserves that become depleted by production and sales. To this end, the JAPEX Group shall strive to identify prospective opportunities and to discover as well as secure new oil and gas reserves by engaging in effective exploration and production both in Japan and overseas.

Daily Production of Crude Oil and Natural Gas

Average net production volume for fiscal year (FY) 2014 for the JAPEX Group was 21,851 b/d of crude oil, including bitumen, and 26,470 boe/d of natural gas for an aggregate total of 48,321 boe/d.



Note: Figures for crude oil include bitumen (an extra-heavy crude oil extracted from oil sands).

E&P: Exploration and Production—exploration, development, production and sales of oil and natural gas

*Conversion Factors and Units

Crude oil 1 kl = 6.29 bbl
Natural gas 1,033 m^3 = 35.31 thousand cubic feet
Natural gas 1,033 m^3 = 1 kl of oil equivalent

boe/d: barrels of oil equivalent per day
b/d: barrels per day
kl/d: kiloliter per day

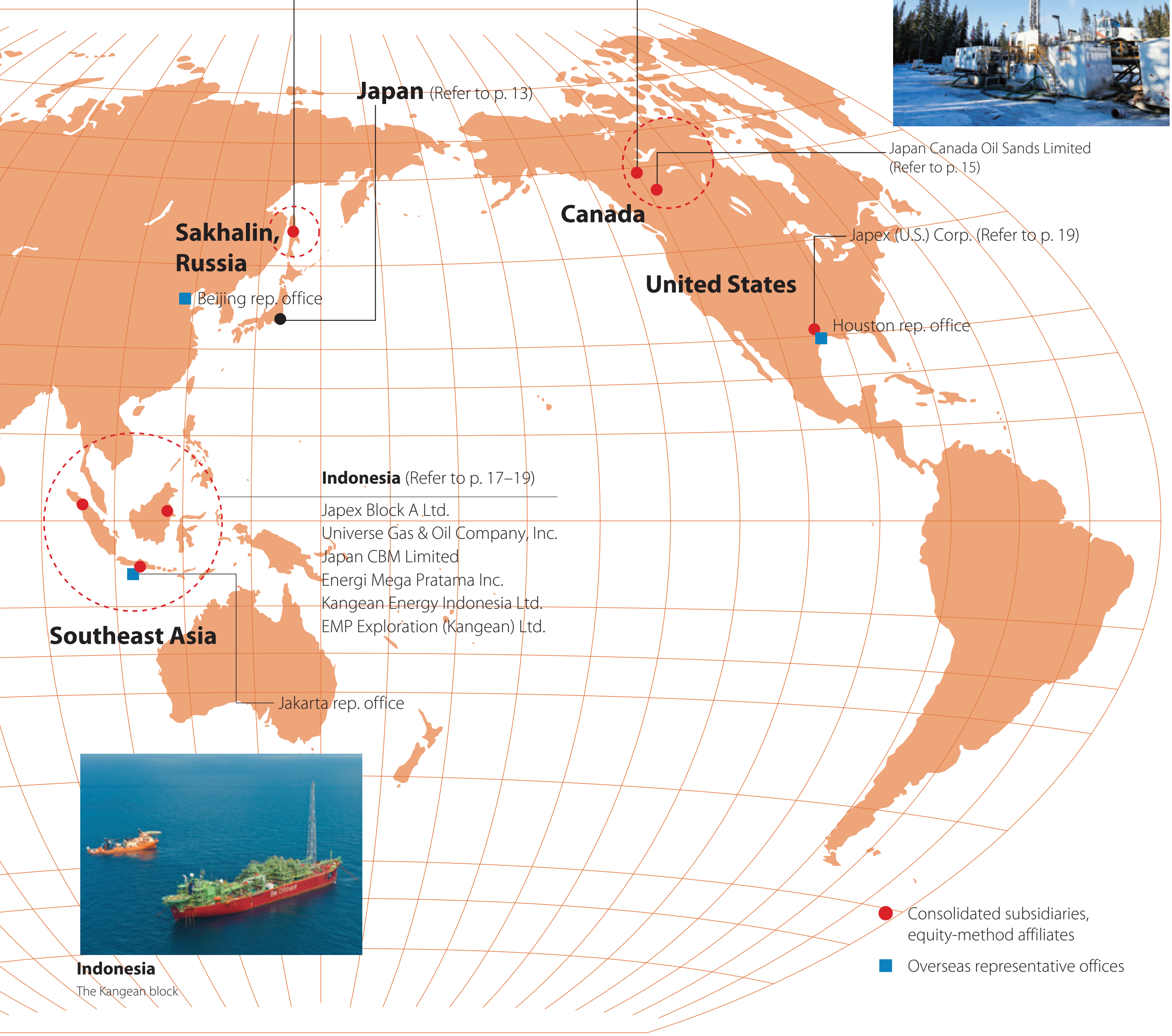
Where We Operate

Photo courtesy of Exxon Neftegas Ltd.

Sakhalin Oil and Gas Development Co., Ltd. (Refer to p. 20)

JAPEX Montney Ltd. (Refer to p. 14)

Japan Canada Oil Sands Limited (Refer to p. 15)



Indonesia
The Kangean block

Domestic E&P

JAPEX currently operates 11 domestic oil and gas fields in onshore and offshore Hokkaido, Akita, Yamagata and Niigata prefectures.

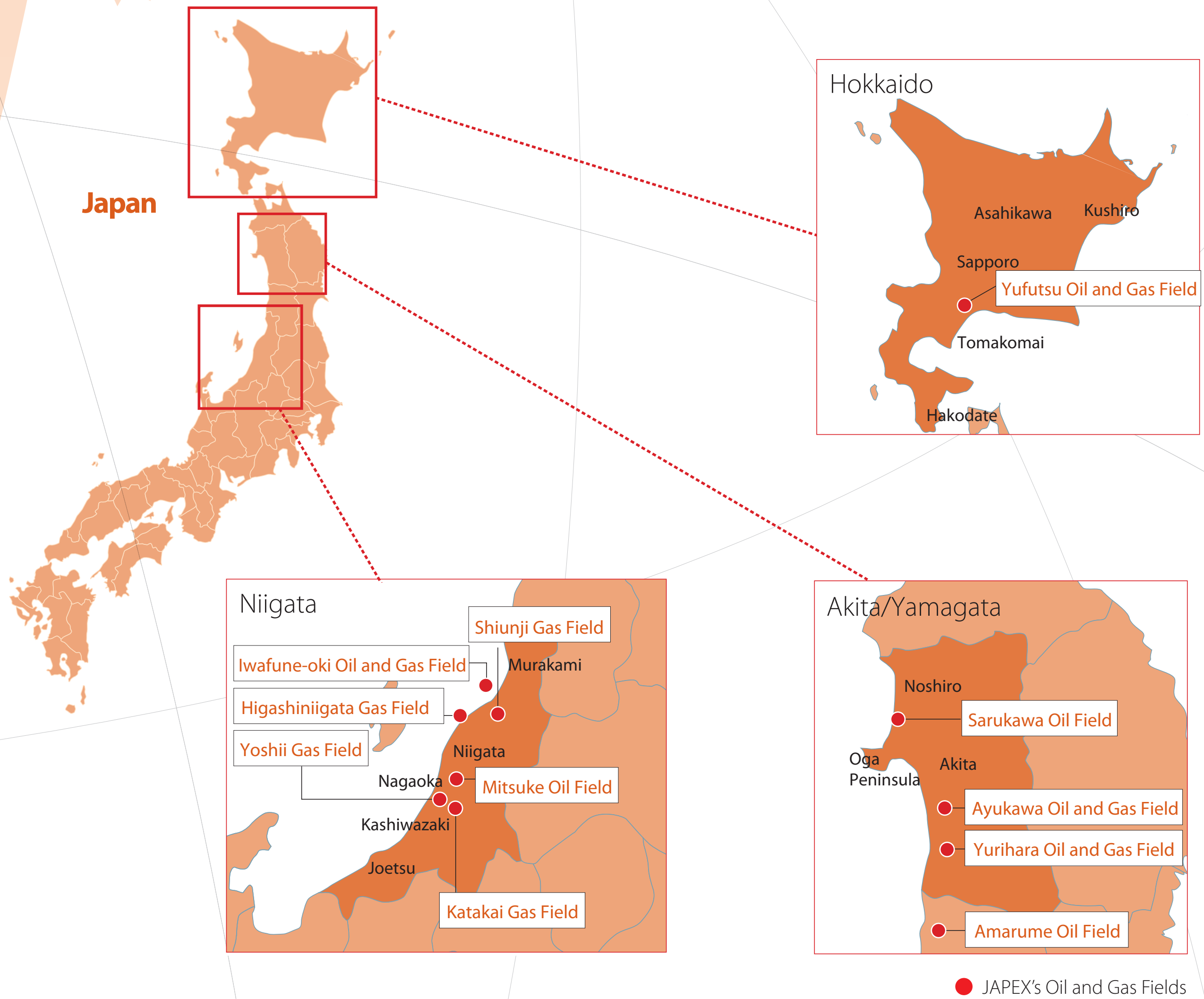
In order to maintain and expand its oil and natural gas reserves, JAPEX is pursuing E&P activities aggressively and in line with plans, by effectively combining the "exploration aimed at adding new large-scale gas reserves" with the "expansion of reserves in areas near existing oil and gas fields," centering these activities in the prefectures of Hokkaido, Akita and Niigata.

Results and Plans of Exploration and Development (Includes Japex Offshore Ltd.)

In FY2014, the net production volume of crude oil and natural gas in Japan was 21,354 boe/d. Within this amount, crude oil accounted for 6,876 b/d and natural gas for 14,478 boe/d.

As for exploration and development activities in FY2014, JAPEX conducted 2D geophysical surveys in two regions within Niigata Prefecture. In addition, we drilled the delineation wells Akebono (T1) SK-2D-1H at Yufutsu in Hokkaido and Katakai SK-30D-1 at Katakai in Niigata Prefecture, and succeeded in the production tests for crude oil and natural gas in each well. We also drilled successfully the exploration/delineation well Iwafune-oki East MS-1 off the coast of Iwafune in Niigata Prefecture.

As regards our E&P activities in FY2015, we are planning to drill the exploration well Akebono SK-6bH at Yufutsu in Hokkaido and the development well Fukumezawa SK-26D/DH to explore the possibility of tight oil development adjacent to the Sarukawa Oil Field in Fukumezawa, Akita Prefecture. We also have plans in place to conduct a 3D seismic survey in Akita Prefecture.

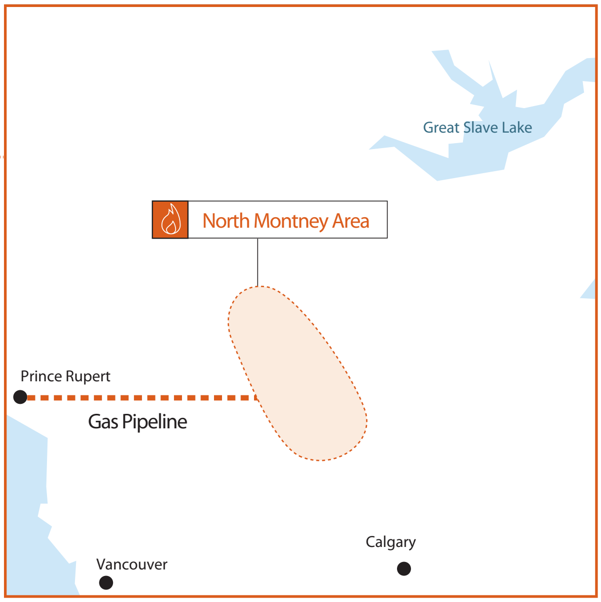


Overseas E&P

Oil Field Oil and Gas Field Gas Field

Canada

Pacific NorthWest LNG Project



In April 2013, JAPEX acquired a 10% interest in a shale gas mineral license currently under production in the North Montney area, British Columbia, Canada. The shale gas production is projected to increase and will be transported by a new pipeline to Prince Rupert on the west coast of the province. There the gas will be liquefied at a planned LNG plant with a capacity to produce 12 million tons of LNG per year, before being exported. We intend to supply to Japan our equity share of the LNG (10% interest: 1.2 million tons per year) through the Soma LNG terminal (currently under construction) and other terminals.

In order to ensure stability and efficiency of project execution, all partners have a consistent equity interest in the integrated operating framework, from the development of gas, through production and liquefaction, to the offtake of LNG.

Shale Gas Development & Production Project

↓

LNG Project

↓

LNG Offtake

↓

Japan Domestic Gas Market

Shale Gas Development & Production Project (Upstream)

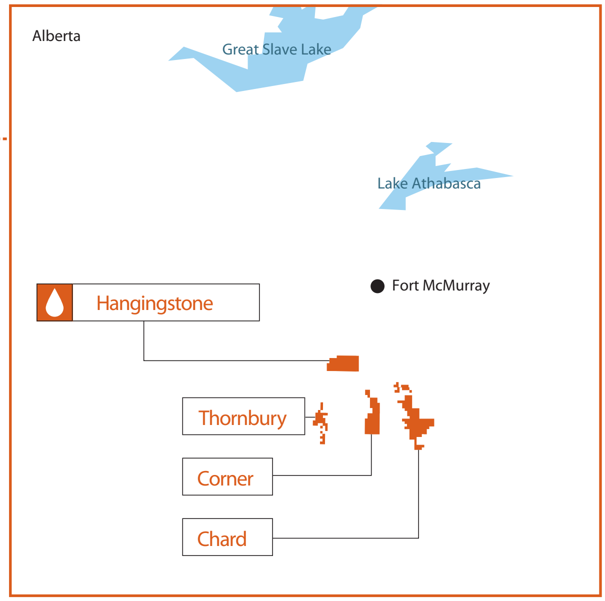
Block	North Montney Area, British Columbia, Canada	
Project Company	JAPEX Montney Ltd. (incorporated in the province of Alberta, Canada)	
Interest	PETRONAS Group	62%
	Sinopec Group	15%
	JAPEX Group	10%
	Indian Oil Group	10%
	Petroleum Brunei Group	3%

LNG Project (Downstream)

Proposed Plant Location	Lelu Island, Prince Rupert, British Columbia, Canada	
Interest	PETRONAS Group	62%
	Sinopec Group	15%
	JAPEX Group	10%
	Indian Oil Group	10%
	Petroleum Brunei Group	3%

Canada

Canada Oil Sands Co., Ltd.



In Canada, our consolidated subsidiary Canada Oil Sands Co., Ltd. has been engaging in oil sands production operations through its local subsidiary Japan Canada Oil Sands Limited (JACOS) using the Steam-Assisted Gravity Drainage (SAGD) method in a portion of the Hangingstone area (commonly known as the 3.75 section area) in the Athabasca region of Alberta.

Progress and future plans for the Hangingstone Oil Sands Expansion Project, which is under way in an adjacent undeveloped area, are as follows.

May 2008: Started environmental impact assessment
Mar. 2010: Completed environmental impact assessment
Apr. 2010: Submitted a development application to the relevant agency of the Alberta provincial government
Nov. 2012: Acquired development approval
Dec. 2012: Made a final investment decision (FID); commenced development
Sep. 2013: Signed primary EPC contracts
2016: Commence production (production of around 20,000 barrels per day, with a possible increase to 30,000 barrels per day through facility expansion)

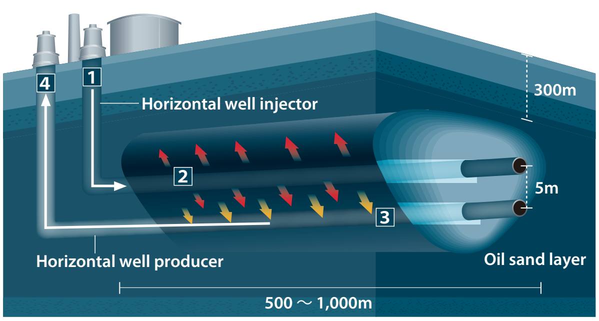
In addition to the Hangingstone area, JACOS owns oil sands areas that have yet to be developed spanning a total of 290 km² (net) in the Athabasca region.

Block	Hangingstone (commonly known as the 3.75 section area)	
Project Company	Canada Oil Sands Co., Ltd. (local subsidiary: Japan Canada Oil Sands Limited)	
Interest	Japan Canada Oil Sands Limited (Operator)	100%

Block	Hangingstone (expansion area)	
Project Company	Canada Oil Sands Co., Ltd. (local subsidiary: Japan Canada Oil Sands Limited)	
Interest	Japan Canada Oil Sands Limited (Operator)	75%
	Nexen Energy	25%

JAPEX has partnered with Suncor (formerly Petro-Canada), Nexen Energy (formerly Canadian OXY) and Imperial Oil (formerly Esso) with respect to the undeveloped areas such as Corner, Chard and Thornbury. Participating interests differ for each respective block.

Schematic of the SAGD Process



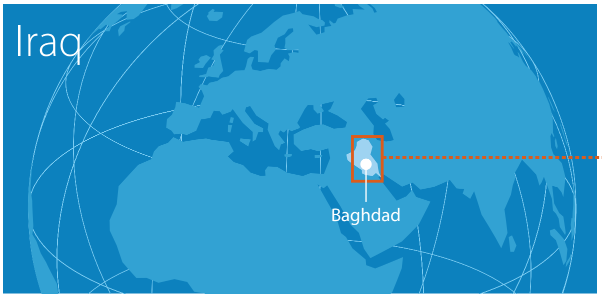
1 High-temperature, high-pressure steam is continuously injected into the upper well.
2 The steam heats the oil sand layer and waits the bitumen.
3 Liquefied bitumen falls into the lower well.
4 Liquefied bitumen is produced along with hot water* from lower well.

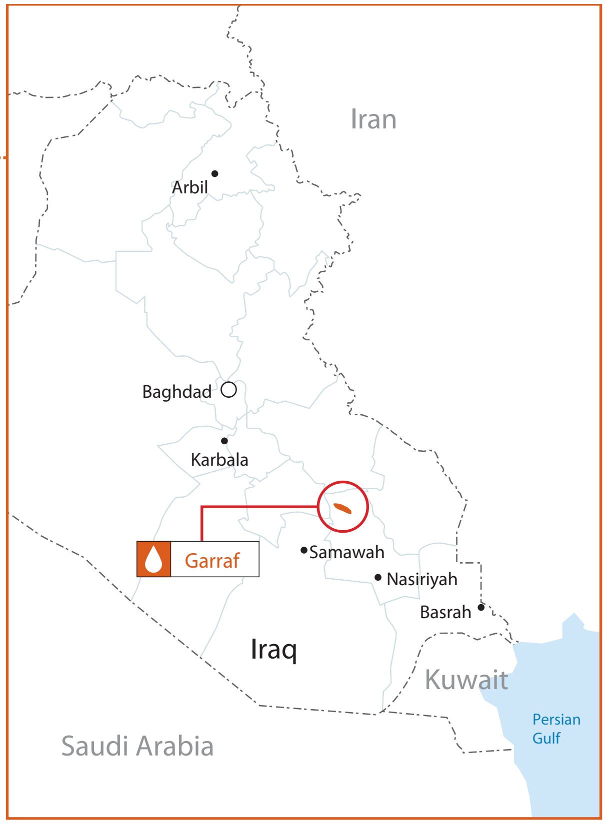
* JACOS conducts environmentally friendly operations that minimize fresh water consumption by recycling more than 90% of the warm water produced.

Oil Field   Oil and Gas Field   Gas Field

The Middle East

Japex Garraf Ltd.





First Oil in 2013

In December 2009, the Iraqi Ministry of Oil held the second international petroleum licensing round for oil fields that had been discovered but left undeveloped. JAPEX, along with Malaysian state-owned oil company PETRONAS, jointly secured the winning bid and acquired the development and production service contract to the Garraf Oil Field, located in southern Iraq. In March 2010, JAPEX established Japex Garraf Ltd. as the project company to conduct the development of the Garraf Oil Field. We are working diligently with the operator, PETRONAS, on the development of the field.

In August 2013, we successfully commenced production of around 35,000 b/d, and in November the Iraqi Ministry of Oil officially certified the achievement of commercial production at the Garraf Oil Field. In February 2014, we made the first shipment of Japex Garraf's share of production—around 1.56 million barrels of crude oil, and the second shipment was also completed in June 2014. The Garraf Oil Field has been maintaining steady production at around 80,000 to 90,000 b/d, and we plan to ship the crude oil around once every three months.

The proceeds recovered from the shipments will be reinvested in further development of the Garraf Oil Field, while the surplus will be distributed to the shareholders of Japex Garraf Ltd., including JAPEX.

2017: Production Target of 230,000 b/d

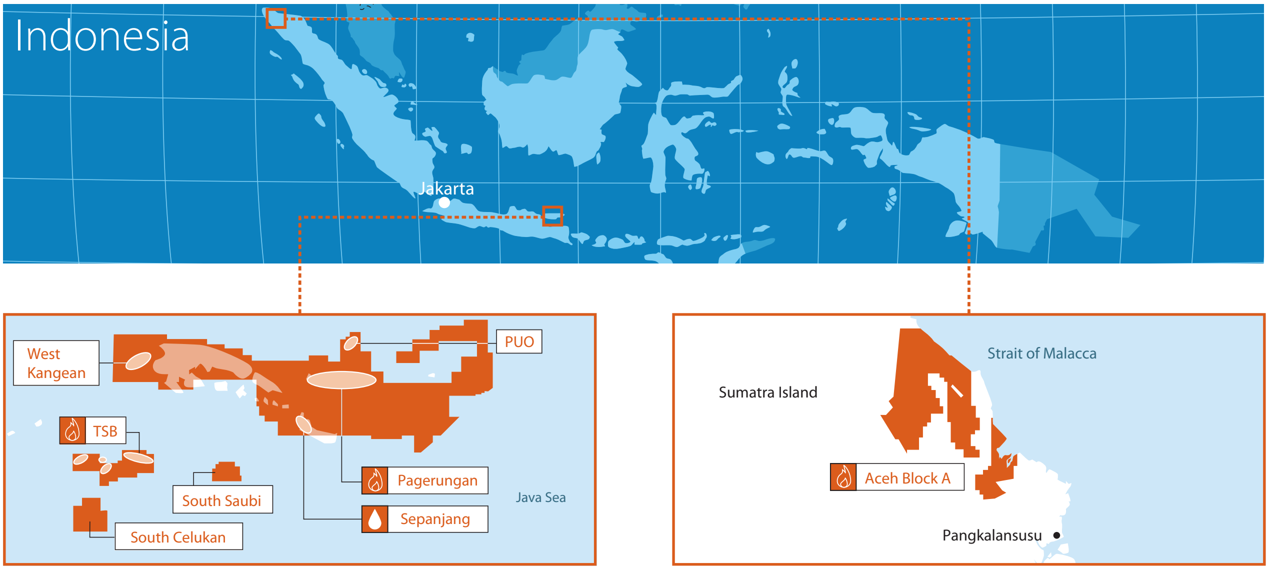
Preparations are currently underway for further development of the Garraf Oil Field, aimed at achieving a plateau production of 230,000 b/d. We will continue to do our best to contribute to corporate revenue by increasing production, stabilizing operation, and constantly shipping and selling crude oil.

Field	Garraf Oil Field (Southern Iraq)	
Project Company	Japex Garraf Ltd.	
Contract Type	Development and Production Service Contract	
Contract Term	20 years (with optional 5-year extension)	
Remuneration	US$1.49 per barrel of crude oil production	
Production Schedule	2013: Commenced initial production 2017: Achieve production target of 230,000 b/d (plateau production target)	
Aggregate Production Volume (during the contract)	Approximately 1.3 billion barrels	
Contracting Party	South Oil Company (under the Iraqi Ministry of Oil)	
Development Contractors	Project Share	Cost Share
PETRONAS Carigali Iraq Holding B.V.	45%	60%
Japex Garraf Ltd.	30%	40%
North Oil Company (under the Iraqi Ministry of Oil)	25%	—*

* JAPEX and PETRONAS are to provide the North Oil Company's share of costs which will be recovered by from the produced oil.

Southeast Asia

Energi Mega Pratama Inc.



Block	Kangean Block (offshore East Java)	
Project Company	Energi Mega Pratama Inc.	
Interest	Kangean Energy Indonesia Ltd. (Operator)	60%
	EMP Exploration (Kangean) Ltd.	40%

Note: Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd. are subsidiaries of Energi Mega Pratama Inc.

JAPEX has a 25% ownership in equity-method affiliate Energi Mega Pratama Inc. (EMPI) which holds a 100% working interest in the Kangean Block offshore East Java through subsidiaries Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd.

Within this block, we are producing from the Pagerungan Gas Field and the Terang Gas Field, part of the TSB gas fields, and moving forward with development activities at the Sirasun and Batur Gas Fields in the same TSB gas fields. Commercial production commenced at the Terang Gas Field from May 2012 peak production from this field is 300 million cubic feet per day (equivalent to 2.25 million tons of LNG per annum or 50 thousand barrels of oil per day) which is sold to the Indonesian market. In April 2014, cumulative production reached 30 million barrels of oil equivalent.

Japex Block A Ltd.

Block	Aceh Block A (onshore North Sumatra)	
Project Company	Japex Block A Ltd.	
Interest	Medco (Operator)	41.6667%
	Premier Oil	41.6666%
	Japex Block A Ltd.	16.6667%

In December 2007, Aceh Block A, in which JAPEX participates through its consolidated subsidiary Japex Block A Ltd. (16.6667% interest) received approval from BPMIGAS, the PS contracting authority of Indonesia for the development plan of gas fields consisting of Alur Siwah, Alur Rambong and Julu Rayeu in North Sumatra. We began the FEED process for production facilities in 2008. In addition, Japex Block A Ltd. along with its partners concluded an agreement in October 2010 with the government of Indonesia to extend the North Sumatra Block A production sharing contract (PSC) a further 20 years from September 2011. Meanwhile, we signed a gas sales agreement (GSA) with a government-operated fertilizer plant in December 2007, and an additional GSA with Indonesia's state-owned electric power company in April 2008. We will continue to promote development activities with the aim of commencing gas production from 2016.

In addition to the above gas fields that are under development, we drilled an exploration well in a separate structure from November 2012 through May 2013, which resulted in a successful test of 700,000 m^3 per day of natural gas. Looking ahead, we will evaluate the possibility of the development and production of this discovery.

Oil Field   Oil and Gas Field   Gas Field

Southeast Asia

Universe Gas & Oil Company, Inc.

Japan CBM Limited

Block	Sanga Sanga Block (Eastern onshore region of Kalimantan Island)	
Project Company	Universe Gas & Oil Company, Inc.	
Interest	BP East Kalimantan Ltd.	26.250%
	LASMO Sanga Sanga Ltd.	26.250%
	Virginia International Co.	15.625%
	Virginia Indonesia Co. (Operator)	7.500%
	Opicoil Houston Inc.	20.000%
	Universe Gas & Oil Company, Inc.	4.375%

JAPEX participates through its equity-method affiliate Universe Gas & Oil Company, Inc. (4.375% interest) in the onshore Sanga Sanga Block in East Kalimantan Province where development and production centers on the four oil and gas fields of Badak, Nilam, Mutiara and Semberah. In 2013, we drilled 58 production wells to increase recovery efficiency and maintain production volumes of crude oil and natural gas for the block of crude oil and natural gas. The gross production of crude oil and natural gas for the block was 70,513 barrels of oil equivalent per day.

Block	Sanga Sanga CBM Block (Eastern onshore region of Kalimantan Island)	
Project Company	Japan CBM Limited	
Interest	BP East Kalimantan CBM Limited	26.250%
	Eni CBM Limited	26.250%
	Opicoil Energy	20.000%
	Virginia Indonesia Co. CBM Limited (Operator)	7.500%
	VIC CBM Limited	15.625%
	Japan CBM Limited	4.375%

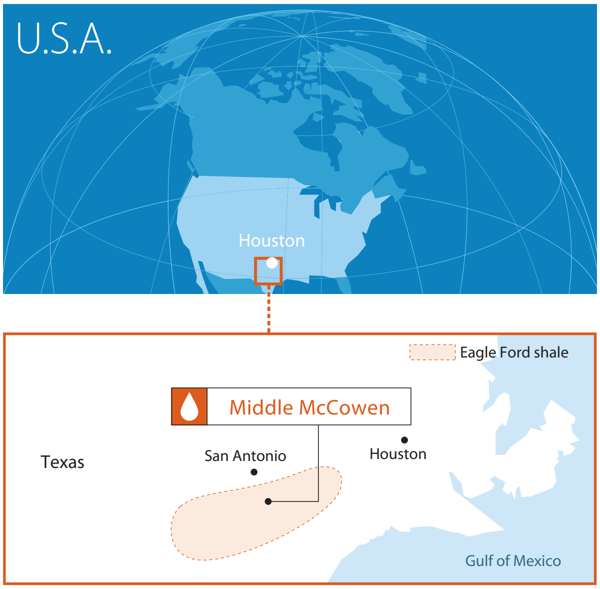
JAPEX, Osaka Gas, JX Nippon Oil & Gas Exploration and LNG Japan jointly established Japan CBM Limited on November 30, 2009, and signed a Production Sharing Contract (PSC) for the onshore Sanga Sanga CBM Block in East Kalimantan Province after winning a public tender from the Indonesian Ministry of Mines and Energy. This block occupies the same area as Sanga Sanga Block, in which JAPEX owns an interest through Universe Gas & Oil. JAPEX holds a 40.12% stake in Japan CBM Limited, making it an equity-method affiliate.

Currently, we are conducting evaluation activities for the commercialization of coal bed methane* from the block.

* Coal bed methane refers to methane gas formed during the coal generation process and trapped in subsurface coal seams or adjacent layers.

North America

Japex (U.S.) Corp.



Block	Middle McCowen (Southern Texas)	
Project Company	Japex (U.S.) Corp.	
Interest	Marathon Oil Corporation	95%
	Japex (U.S.) Corp.	5%

Consolidated subsidiary Japex (U.S.) Corp. has explored for and developed oil and natural gas in onshore Louisiana State and offshore Gulf of Mexico in the United States since its establishment in 1980.

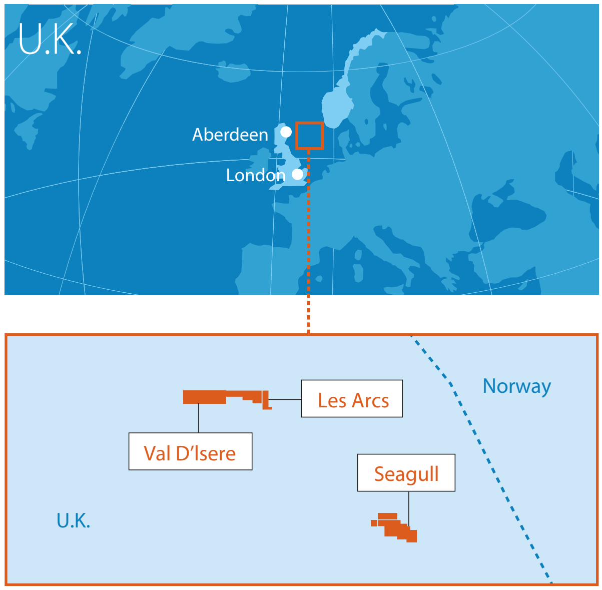
It has been producing oil and natural gas since 1994 in the WD103 Block located in the Gulf of Mexico.

In addition, it has also been investing since 1997 in the upstream/midstream LNG III project in Malaysia through equity-method affiliate Diamond Gas Netherlands B.V.

In August 2012, JAPEX acquired an interest in a shale oil development project in the Eagle Ford region of southern Texas where the operator Marathon Oil Corporation is engaged in development and production activities. We are now steadily expanding the production of shale oil.

United Kingdom and Norway

JAPEX UK E&P Ltd.



Block	Seagull prospect, Val D'Isere prospect, Les Arcs prospect (UKCS)	
Project Company	JAPEX UK E&P Ltd.	
Seagull Prospect (Interest)	Talisman Sinopec Energy UK Limited	50%
	Apache North Sea Limited	35%
	JAPEX UK E&P Ltd.	15%
Val D'Isere Prospect (Interest)	Apache North Sea Limited	55%
	Premier Oil UK Limited	40%
	JAPEX UK E&P Ltd.	5%
Les Arcs Prospect (Interest)	Apache North Sea Limited	50%
	Premier Oil UK Limited	40%
	JAPEX UK E&P Ltd.	10%

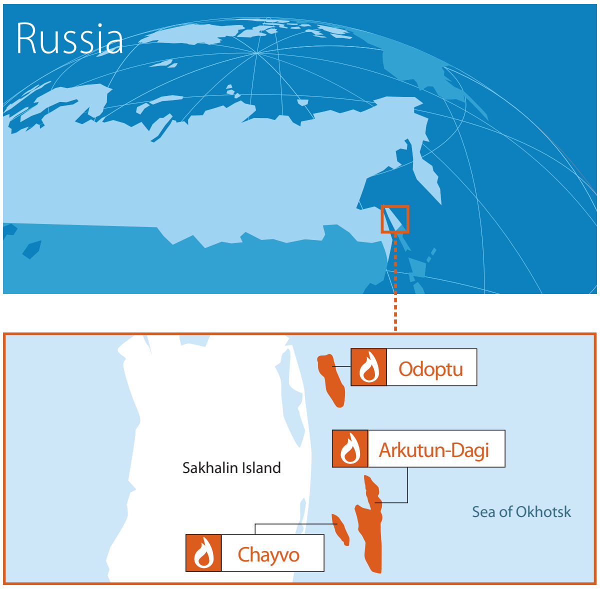
Our consolidated subsidiary JAPEX UK E&P Ltd. has acquired participating interests in the Seagull (15%), Val D'Isere (5%), and Les Arcs (10%) prospects, from Apache North Sea Limited, a subsidiary of Apache Corporation. These exploration licenses are located in the UK Continental Shelf (UKCS).

In the Seagull prospect, a 3D seismic survey has already been performed and one well is currently being drilled. In the Val D'Isere and Les Arcs prospects, a 3D seismic survey is being reprocessed and one well is planned on each prospect in the future.

Oil Field Oil and Gas Field Gas Field

Sakhalin

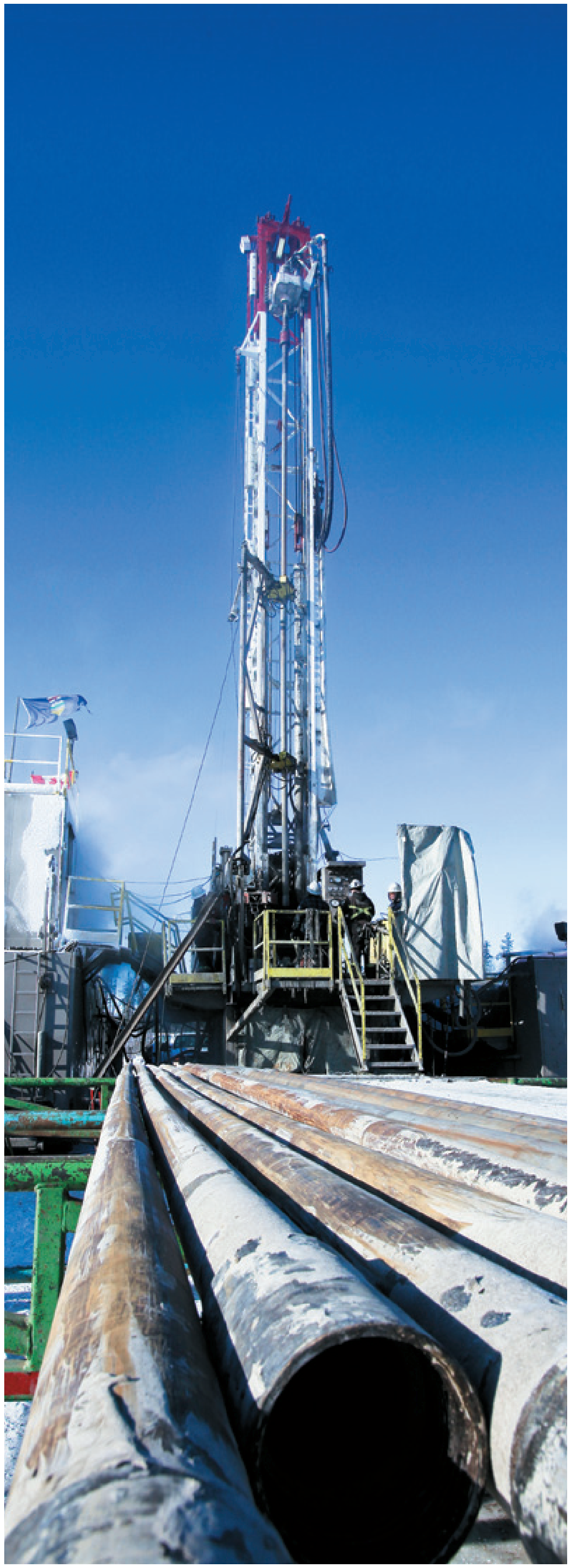
Sakhalin Oil and Gas Development Co., Ltd. (SODECO)



Block	Chayvo, Odoptu and Arkutun-Dagi (offshore Sakhalin)	
Project Company	Sakhalin Oil and Gas Development Co., Ltd.	
Interest	Sakhalin Oil and Gas Development Co., Ltd.	30.0%
	Exxon Neftegas Ltd. (Operator)	30.0%
	ONGC Videsh Ltd.	20.0%
	Sakhalinmorneftegas-Shelf	11.5%
	RN-Astra	8.5%

In Russia, JAPEX's equity-method affiliate Sakhalin Oil and Gas Development Co., Ltd. (SODECO) is participating in the Sakhalin 1 Project with a 30% interest. The Sakhalin 1 project is a consortium to explore and produce oil and gas in three fields: Chayvo, Odoptu and Arkutun-Dagi (offshore Sakhalin). Since October 2005, oil and gas have been produced from the Chayvo Field using production infrastructure such as offshore platforms, onshore well pads and a processing facility. In February 2007, the project reached its peak gross production target of around 250,000 barrels per day (40,000 kiloliters per day) and achieved a cumulative crude oil production volume of 100 million barrels in January 2008.

In addition, crude oil production from the Odoptu Oil and Gas Field commenced in September 2010, while at the Arkutun-Dagi Oil and Gas Field, all necessary preparations are being undertaken toward the commencement of crude oil production in 2014.



Proved Reserves

Proved reserves owned by JAPEX and its consolidated subsidiaries as of March 31, 2014, along with our investment equivalent in proved reserves of equity-method affiliates are presented in the following table.

Proved Reserves of the JAPEX Group

Proved Reserves	JAPEX and consolidated subsidiaries								Equity-method affiliates		Total		
	Japan		Overseas			Subtotal							
	Crude oil (Thousand kl)	Gas (Million m³)	Crude oil (Thousand kl)	Bitumen (Thousand kl)	Gas (Million m³)	Crude oil (Thousand kl)	Bitumen (Thousand kl)	Gas (Million m³)	Crude oil (Thousand kl)	Gas (Million m³)	Crude oil (Thousand kl)	Bitumen (Thousand kl)	Gas (Million m³)
As of March 31, 2013	4,688	19,310	147	18,477	31	4,835	18,477	19,341	2,513	4,530	7,348	18,477	23,871
Increase due to expansion or discovery	—	—	1,664	—	13	1,664	—	13	219	16	1,883	—	29
Change due to revision of evaluation standard	(376)	(4,007)	11	(494)	(9)	(365)	(494)	(4,016)	331	(825)	(34)	(494)	(4,841)
Change due to acquisition and/or divestiture	—	—	452	—	5,419	452	—	5,419	—	—	452	—	5,419
Decrease due to production	(399)	(868)	(286)	(282)	(4)	(685)	(282)	(872)	(301)	(715)	(986)	(282)	(1,587)
As of March 31, 2014	**3,913**	**14,435**	**1,988**	**17,701**	**5,450**	**5,901**	**17,701**	**19,885**	**2,762**	**3,006**	**8,663**	**17,701**	**22,891**

Notes: 1. Proved reserves of the following consolidated companies include reserves held by minority interests. (Figures in parentheses are minority interest's percentage)
Japan: JAPEX (29.39%) Overseas: Canada Oil Sands Co., Ltd. (6.72%), JAPEX Montney Ltd. (50.00%), Japex Garraf Ltd. (45.00%)
2. Consolidated subsidiary Japex Garraf Ltd. commenced development operations in accordance with the Preliminary Development Plan (PDP) approved on January 19, 2011. While based on the future submission and approval of the appropriate Final Development Plan (FDP), evaluated reserves of crude oil held by the company as of March 31, 2014 stand at 14,246 thousand kl, this information has not been included in the table above. This is because an FDP has not at this stage been submitted or approved. The company's share of the fiscal year 2015 scheduled production amount has been calculated as the amount of reserves. FDP submission and approval is scheduled for 2014.

Proved Reserves of the JAPEX Group: Crude Oil Equivalent (For Reference)

Proved Reserves	JAPEX and consolidated subsidiaries								Equity-method affiliates		Total		
	Japan		Overseas			Subtotal							
	Crude oil (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Bitumen (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Bitumen (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Bitumen (Million bbl)	Gas (Million boe)
As of March 31, 2013	29	118	1	116	0	30	116	118	16	28	46	116	145
											Total 307		
Increase due to expansion or discovery	—	—	10	—	0	10	—	0	1	0	12	—	0
Change due to revision of evaluation standard	(2)	(24)	0	(3)	(0)	(2)	(3)	(24)	2	(5)	(0)	(3)	(29)
Change due to acquisition and/or divestiture	—	—	3	—	33	3	—	33	—	—	3	—	33
Decrease due to production	(3)	(5)	(2)	(2)	(0)	(4)	(2)	(5)	(2)	(4)	(6)	(2)	(10)
As of March 31, 2014	**24**	**88**	**13**	**111**	**33**	**37**	**111**	**121**	**17**	**18**	**54**	**111**	**139**
											Total 305		

Conversion Factors and Units

Crude oil 1 kl = 6.29 bbl

Natural gas 1,033 m³ = 35.31 thousand cubic feet

Natural gas 1,033 m³ = 1 kl of oil equivalent

boe: barrels of oil equivalent

Definition of Proved Reserves

Proved reserves indicated on the previous page represent estimated quantities of crude oil and natural gas according to surface conditions that geological and engineering data demonstrate with reasonable certainty to be recoverable from known crude oil and natural gas reservoirs under existing economic and operating conditions. They do not include past production or resources related to undiscovered deposits.

Reserves from the previous page conform to the Petroleum Resources Management System (PRMS) 2007, the international standards defined in 2007 by four organizations: the Society of Petroleum Engineers (SPE), the World Petroleum Congress (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE).

Figures for proved reserves on the previous page reflect JAPEX's judgment based on "proved reserves" as defined by the PRMS. Such figures do not include "probable reserves" or "possible reserves," which have a high level of uncertainty regarding future extractability. Projects for which commercial development plans have not been finalized (even if the existence of resource deposits has been confirmed) are classified as "contingent resources" and are categorized separately from "reserves." Such "contingent resources," which include oil sands held in Canada by a consolidated subsidiary, are not included in the figures on the previous page.

In addition to the PRMS, the definition of proved reserves compiled by the United States Securities and Exchange Commission (SEC) is widely known among the investment community. Revisions released by the SEC in December 2008 have made this definition in essence similar to that provided by the PRMS.

Based on its judgment, JAPEX has been disclosing data that conforms to the PRMS definition of "proved reserves." Proved reserves held by overseas project companies are indicated based on the economic share of each project company as defined in agreements signed with respective local governments.

To verify its own evaluations and judgments with respect to reserves, JAPEX contracted with third-party Ryder Scott Company Petroleum Consultants to examine 63% of the proved reserves of our company and its consolidated subsidiaries as of March 31, 2014*[1] in Japan, as shown in the table on the previous page. Overseas, with respect to part of the bitumen reserves in the area owned by consolidated subsidiary Japan Canada Oil Sands Limited, JAPEX received a third-party evaluation from Sproule Unconventional Ltd. This evaluation was based on standards outlined in the Canadian Oil and Gas Evaluation Handbook, compiled by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and others. In addition, JAPEX also received a third-party evaluation with respect to the reserves of Japex (U.S.) Corp. and Kangean Energy Indonesia Ltd. JAPEX has therefore received third-party evaluations for approximately 76%*[1] of total proved reserves (8,663 thousand kl of crude oil, 17,701 thousand kl of bitumen, and 22,891 million m^3 of natural gas) as of the end of fiscal year (FY) 2014, as shown in the table on the previous page. The evaluation figures from JAPEX itself and the third-party evaluation figures have been close previously, and the divergence of some figures in recent years has lessened at the end of FY2014. As a result, JAPEX believes the figures for proved reserves, shown by its own evaluation in the table above to be appropriate.

"Reserves" as defined above refer to reserves with future development potential and contain inherent uncertainties. While JAPEX strives to obtain accurate evaluations according to geological, engineering and other scientific data, such reserves may again be reviewed based on data obtained in the future, changes in economic conditions, or changes in internationally recognized definitions. Evaluations are thus subject to upward or downward revision.

*1 Calculations are based on a conversion factor of 1 kl of crude oil and bitumen = 1,033.1 m^3 (1 boe = 5.8 Mscf) of natural gas.

Review of Operations

Global Integration of Natural Gas Business

Aiming to Achieve an Even More Stable Supply

The domestic natural gas business is positioned as one of the three major basic policies of business expansion for JAPEX. We have made efforts to expand the gas supply chain, from the development of gas fields (upstream), supply by pipelines and various other means (midstream), and sales to markets (downstream).

Natural Gas Supply Chain

In the overseas upstream portion of the gas supply chain, JAPEX acquired an interest in a shale gas license area in the North Montney area of British Columbia in April 2013, making a decision to participate in the Pacific Northwest LNG Project in Canada. In order to receive this LNG from overseas and supply it to the domestic market, we are constructing the Soma LNG terminal which is scheduled to commence operations in March 2018. We aim to ensure an even more stable supply by linking these new gas sources and facilities with our existing domestic pipelines and other infrastructure.

JAPEX is working to further enhance its capability to provide a long-term stable supply, including enhancing its security capabilities, and also to achieve a competitive supply of LNG and natural gas.

Natural Gas Pipeline Network

JAPEX owns and operates domestic natural gas pipeline networks with a total length of over 800 kilometers. These pipeline networks comprise important regional energy infrastructures and are key strategic assets of JAPEX that directly link our domestic gas fields to LNG receiving terminals.

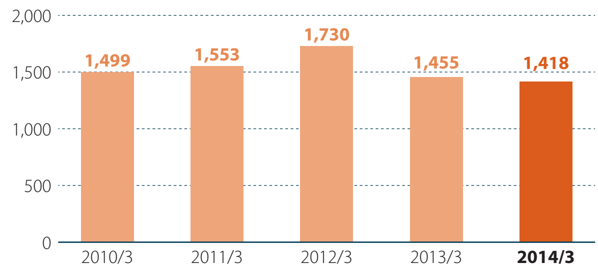
In Hokkaido, we have constructed a pipeline connecting the Yufutsu Oil and Gas Field to the area around Tomakomai City as well as to the vicinity of Sapporo City to supply natural gas to local distribution companies (LDCs) and industrial customers.

In Akita, we have constructed a pipeline from the Yurihara and Ayukawa Oil and Gas Fields into Akita City to supply natural gas, primarily to LDCs.

In the Tohoku and Hokuriku regions, we have expanded our largest natural gas pipeline network, covering the four prefectures of Niigata, Yamagata, Miyagi and Fukushima, branching out from our gas fields and LNG receiving terminal in Niigata and supplying gas-fired power plants, LDCs, and industrial customers.

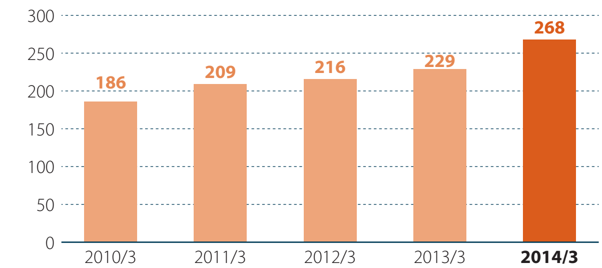
Natural Gas Sales

(Million m³)



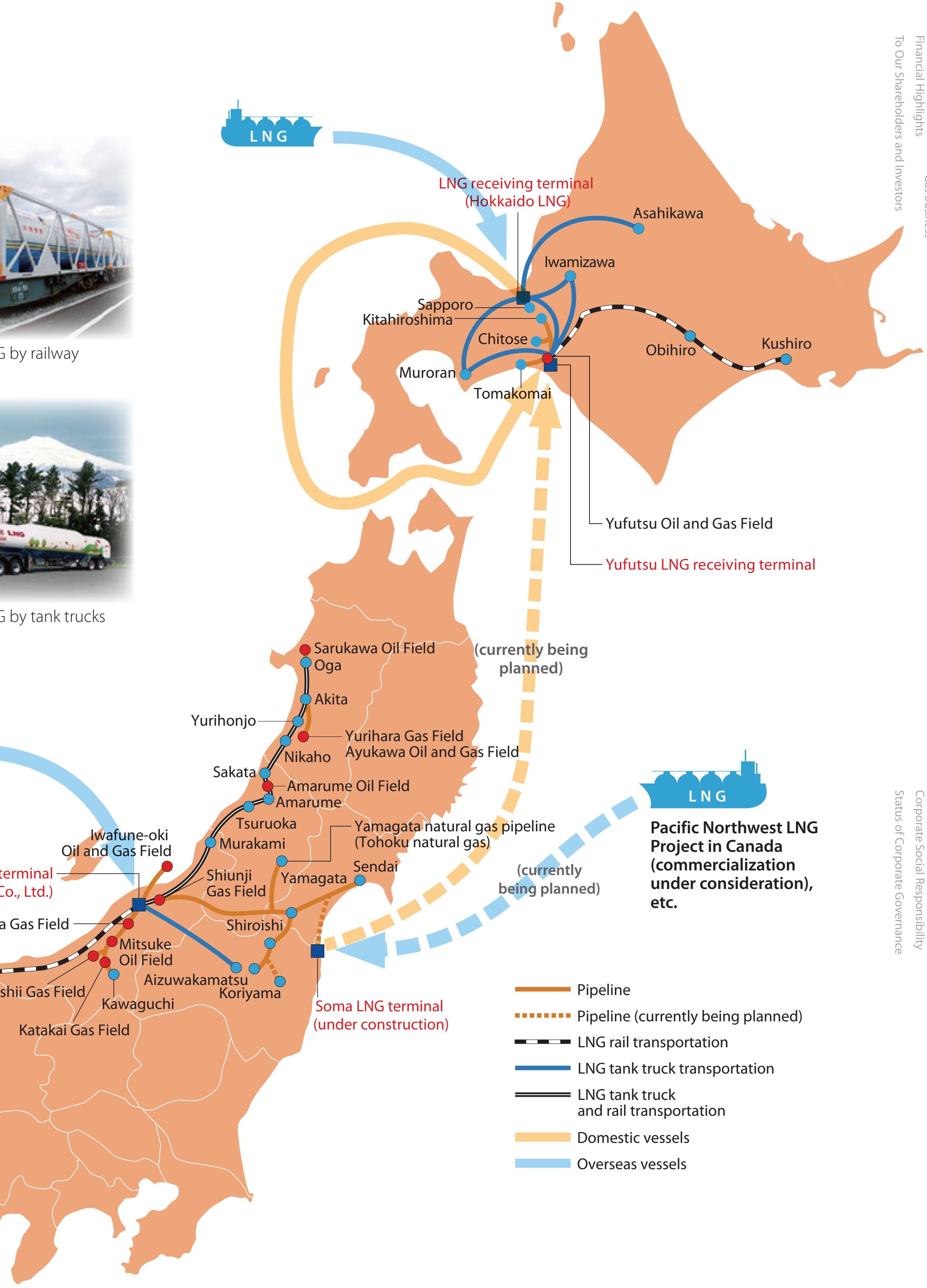
LNG Sales

(Thousand tons)



Transportation of LNG by railway tank containers

Transportation of LNG by tank trucks



LNG Satellite System

JAPEX operates an LNG satellite system to meet demand for natural gas in regions not served by its gas pipeline network.

In the Honshu region, we transport and supply LNG imported from overseas from an LNG receiving terminal at Niigata Port to the Tohoku and Hokuriku regions using tank trucks and railway tank containers. Offering comparatively lower carbon dioxide emissions than tank trucks, rail transport of natural gas is receiving attention both in Japan and international as an environmental-friendly transportation method.

As one measure for ensuring stable supply to meet peak demand of natural gas in winter in Hokkaido, we are supplying a combination of natural gas from the Yufutsu Oil and Gas Field and LNG from external sources. To this end, we constructed an LNG receiving terminal at our Hokkaido District Office located in the west division of Tomakomai Port, and commenced operations in November 2011.

Review of Operations

Research & Development

JAPEX Research Center

Toward the Effective Utilization of Energy

The Petroleum exploration and production (E&P) is founded upon comprehensive technologies including geology, geophysics, exploration technology, drilling technology, reservoir engineering, and information technology. While many E&P companies outsource a substantial portion of these technologies, the JAPEX Group, having evolved as a fully integrated E&P company, boasts the competitive advantage of having accumulated in-house the technologies essential for exploration, development, production and transport.

JAPEX has positioned the Environment and innovative technology business as one of the three major basic policies to pursue in order to expand its business, is aiming to accumulate new technology and knowledge through research and development (R&D) of methane hydrate, Carbon dioxide Capture and Storage (CCS), and other areas.

We are also conducting R&D of renewable energy sources such as geothermal and solar power. We aim to incorporate these technologies and knowledge into our business model in order to develop new bases of business.

Methane Hydrate—A New Energy Source

Methane hydrate is an ice-like substance in which methane, a component of natural gas, is captured inside water molecules. It occurs naturally in highly pressurized, low-temperature environments, such as below the seabed at depths of 500 meters or more or below permafrost layers in the polar regions. There is an estimation that around 1.1 trillion m^3 of original methane hydrate resources exists in the eastern area of the Nankai Trough offshore from Shizuoka to Wakayama.

JAPEX was quick to recognize the potential of methane hydrate and has undertaken research to uncover development technologies. JAPEX played a leading role in joint research with the former Japan National Oil Corporation (JNOC) and companies from the private sector between FY1996–2000. In 2000, JAPEX drilled the exploratory well "Nankai Trough" in its block offshore Shizuoka on government funding and became the world's first company to successfully collect a methane hydrate core.

Following these achievements, "Japan's Methane Hydrate R&D Program" was created by the Ministry of Economy, Trade and Industry (METI) in 2001. This project is being conducted by the Research Consortium for Methane Hydrate Resources in Japan (MH21), which has members from government, industry, and academia. The program is divided into Phase 1 (FY2002–2009), Phase 2 (FY2010–2016), and Phase 3 (FY2017–2019). The main activities of each phase are shown in the table at the top left of page 26.

In February 2012, JAPEX was commissioned as the operator for the first offshore production tests at the Daini Atsumi Knoll off the coast of the Atsumi and Shima peninsulas and drilled one production and two monitoring wells. During production tests conducted between January and March, JAPEX successfully collected a large amount of valuable data, including the continuous production of methane gas over a six-day period (with an average gas production volume of 20,000 m^3 per day, and cumulative production of approximately 120,000 m^3) from a methane layer using the depressurization method. This was a world first for offshore operations. Medium to long-term offshore production tests are scheduled for FY2016–2018, and JAPEX has contracted preliminary work for this test in May 2014 ("Support Work Related to Studies on the Basic Policy and Plan for the Medium and Long-Term Offshore Production Test of Methane Hydrate") from Japan Oil, Gas and Metal National Corporation (JOGMEC). JAPEX believes that shallow-seabed type methane hydrate deposits abundant in the Sea of Japan, are potentially important energy sources, and will actively collect information as well as evaluate opportunities to assess the resource volume and participate in various activities including the investigation, research and development of recovery technologies.

JAPEX will continue to play a leading role as a member of MH21, and actively promote the research and development of methane hydrate development technology.

Phase 1 (FY2001–2009) Basic Research	
FY2002	First onshore production test in Canada
FY2003	3D seismic survey offshore Shizuoka to Wakayama
FY2004	Basic exploratory drilling offshore Shizuoka to Wakayama
FY2007	Detailed assessment of resource volume offshore Shizuoka to Wakayama
FY2007–2008	Second onshore production test in Canada (successful production)
FY2009	Final assessment of Phase 1

Phase 2 Achievements and Plans	
FY2013	Phase 1 Offshore Production Test of Methane Hydrate at the Second Atsumi Sea Hill
FY2016	Phase 2 Final Evaluation (planned)

Phase 3 Plan	
Around FY2017–2019	Medium- and long-term production testing of methane hydrate (planned)
FY2019	Phase 3 Final Evaluation (planned)

Glossary

What is methane hydrate?

Methane, the main component of natural gas, is an environment-friendly clean energy. It emits less CO_2 at the time of combustion compared with oil and coal, and does not contain sulfur. Accordingly, methane does not emit harmful substances that can cause atmospheric pollution or acid precipitation.

Methane hydrate, an ice-like solid formed by methane captured inside water molecules, is attracting attention as a new energy resource. It is known to exist in highly pressurized, low-temperature natural environments, embedded in a shallow layer below the seabed at a water depth of over 500 meters or in permafrost layers near the North and South poles. Hopes are high that these reserves of methane hydrate could significantly enhance Japan's energy self-sufficiency.

Artificial methane hydrate set alight

Source: Research Consortium for Methane Hydrate Resources in Japan

First offshore production tests

Source: Japan Oil, Gas and Metals National Corporation

Commercialization of CO_2 Capture and Storage Technology (CCS)

CCS is an acronym for Carbon dioxide Capture and Storage, which is one of the various methods proposed for reducing CO_2 emissions. It stores captured CO_2 by directly injecting it into depleted oil and gas reservoirs or deep saline aquifers, and is considered to be highly practical, reliable and safe.

It is estimated that up to approximately 150 billion tons of CO_2 could be stored in underground geological formations in Japan. This is equivalent to approximately 100 years of Japan's annual CO_2 emissions.

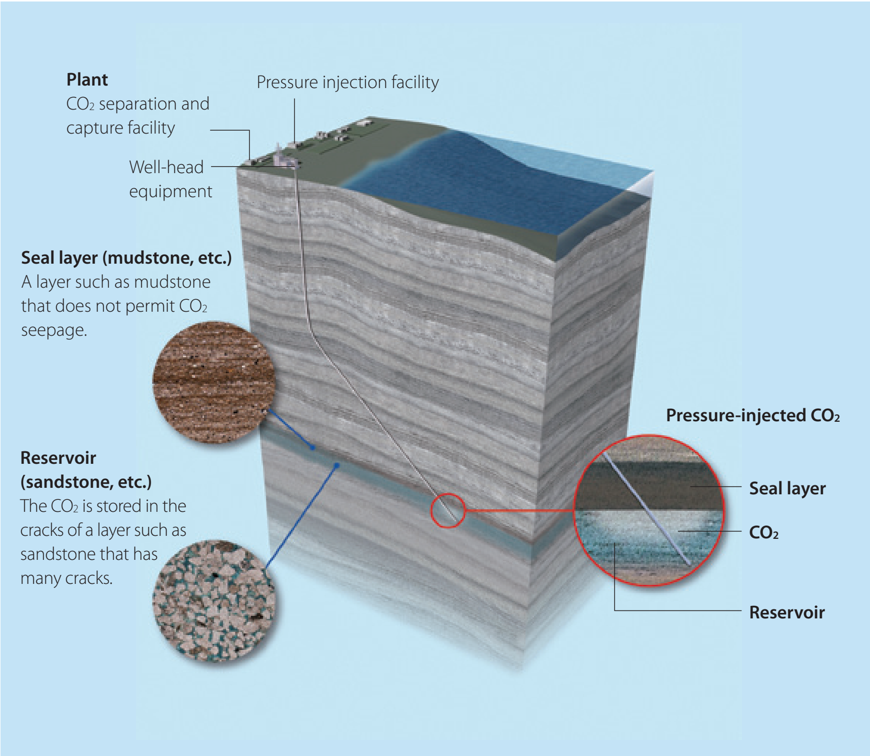
Applying Core E&P Technologies

JAPEX possesses cutting-edge technologies cultivated over half a century of experience in petroleum exploration and development, such as those used for investigating subsurface structures, estimating petrophysical properties, drilling wells, simulating subsurface fluid movement, as well as underground monitoring centered on seismic surveys. Our exploration and development technologies represent indispensable core technologies applicable to CCS, such as in the selection of injection locations, drilling of injection wells, and optimization of injection.

Commercialization of CCS Technology

In 2008, the Japanese government announced the "Action plan for achieving a low-carbon society," in which it stated its policy to commercialize CCS by 2020. In response to this policy, JAPEX jointly established Japan CCS Co., Ltd. with other private-sector companies in May 2008. Japan CCS was commissioned by METI to conduct the project "Demonstration tests of technology to reduce CO_2 in FY2013." Through our participation in demonstration tests, we hope to commercialize CCS technology, and contribute to the prevention of global warming.

Schematic of CCS



Source: Japan CCS Co., Ltd.

Geothermal Power Development

Geothermal power is a renewable energy source that uses high-temperature steam and hot water extracted from deep underground reservoirs to generate electricity. Currently, there are geothermal power stations operating in 17 location in Japan.

Geothermal resources are pure domestic energy sources. Japan is a volcanic country, making it the third richest country in the world in terms of geothermal energy resources. Geothermal power generation is an environment-friendly method with extremely low CO_2 emissions and a stable source that can generates electricity continuously day and night regardless of weather conditions. It is therefore hoped that further development of this resource will be promoted, and from this aspect, JAPEX is also aiming to commercialize geothermal power generation.

Geothermal Surveys and Development

The investigation and development of geothermal resources is an area where JAPEX can utilize its oil and gas E&P technology. JAPEX has been conducting surveys of geothermal resources in Hokkaido, Tohoku, and Kyushu since 1977. In the Yamagawa area in Kagoshima Prefecture, JAPEX constructed a 30,000 kW geothermal power plant in 1995 in collaboration with Kyushu Electric Power Co., Inc., taking on the operation of the steam facilities supply. (JAPEX steam facilities were transferred to Kyushu Electric Power Co., Inc. in 2005)

JAPEX has identified prospective areas in eastern Hokkaido, such as the south area of Mt. Furebetsutake (Kushiro City) and the Mt. Musadake area (Shibetsu Town). Subsequently, these areas were investigated by the government and the prospectivity of these areas was reconfirmed. Over the recent years, JAPEX has been commissioned to conduct surveys sponsored by the government of the Mt. Kirishima-Eboshidake area in Kagoshima from FY2001–2004, the Mt. Shibetsu-Serayama area in Hokkaido from FY2005–2006, and the Mt. Musadake area in FY2011, thereby contributing to the promotion of geothermal development.

NEDO (New Energy and Industrial Technology Development Organization) geothermal development surveys in the fiscal years FY2002–2005. The Mt. Kirishima-Eboshidake area geothermal survey: production test (run by JAPEX).

Pursuing New Geothermal Development

The importance of geothermal development is receiving much attention and the expectations for further promotion of development are high. The Japanese government has introduced measures such as; 1) relaxation of regulations for survey and development in national parks, and 2) new incentives regarding FIT (Feed-in Tariff, fixed price trading system), for renewable energy producers.

Accordingly, utilizing the technology and survey results accumulated in this area, JAPEX initiated surveys including the drilling of geothermal exploratory wells in the Mt. Musadake area from August 2013, aiming to commence geothermal power generation in 2023. We are also pursuing the potential of geothermal development in new areas, such as the south area of Mt. Furebetsudake.

Solar Power Generation

JAPEX is set to operate two mega-solar installations in Tomakomai City in Hokkaido. Commercial operations at the mega-solar plant within our Hokkaido District Office premises commenced in August 2014, and another plant at Solar Power Tomakomai Co., Ltd. is slated to start commercial production in December.

The Tomakomai area has long daylight hours, little snowfall, and low air temperature, making it one of the most suitable places for solar power in Japan, therefore, the plants are expected to provide stable source of solar power.

	Facility capacity	Site area
Hokkaido District Office	1,800 kW	38,700 m^2
Solar Power Tomakomai Co., Ltd.*	13,000 kW	300,000 m^2

*Joint project with Sumitomo Group

Mega-solar power plant at the Hokkaido District Office

Risk Factors

The following is a list of significant risks that could affect JAPEX's operating results, stock price, financial condition and other factors. In addition, JAPEX makes every effort to disclose all pertinent information to its shareholders and investors, including information that may not necessarily constitute a risk to our company's business. Recognizing the possibility that the events described below could take place, the JAPEX Group is working to prevent their occurrence and to respond appropriately in the event they do occur.

1. Factors Relating to Changes in Operating Results

(1) Factors Affecting Sales of Crude Oil

The price of crude oil sold by JAPEX in Japan is determined by international crude oil prices, and the market could fluctuate according to the level of output set by OPEC, trends in the international balance of supply and demand and other factors. Also, fluctuations in exchange rates may impact the price. Although we conduct crude oil swaps and other transactions to limit these risks, not all risks can be avoided through such measures.

(2) Factors Affecting Sales of Natural Gas

The unit sales price of natural gas sold by JAPEX in Japan is generally fixed according to year-long contracts with each customer on a yen-denominated basis. However, over the past few years there has been a growing trend toward contracts in which the price is determined according to the market price of LNG, and therefore net sales are exposed to the heightened risk of fluctuations in international market prices or foreign exchange. In addition, the sales volume of gas supplied to local distribution companies fluctuates seasonally, with demand falling during the summer months and rising in winter. Moreover, a relatively warm winter will lead to a fall in sales volume. Further, over the long term, deregulation of Japan's energy market and other factors have the potential of having an adverse effect on natural gas unit sales prices and sales volumes.

(3) Fluctuations in Earnings Due to the Level of Exploration Investment

Exploration, development and sales constitute the backbone of the JAPEX Group, and it is important that the Group reinforces its framework for ensuring the stable, long-term supply of crude oil and natural gas by maintaining and expanding reserves that become depleted by production and sales. Consequently, the Group allocates an appropriate amount of the earnings gained from sales of crude oil and natural gas to exploration for resources in Japan and overseas. The amount of this exploration investment is expensed as an exploration expense or as a reserve at the time it is incurred. As a result, increases or decreases in the amount of exploration investment made in each fiscal year have a direct effect on the Group's earnings.

2. Business Risks

(1) Business Characteristics

The exploration stage of business operations, from initial surveys to exploration work and discovery of resources, requires a substantial investment of funds and time with no assurances that oil or gas will be found, making it an inherently high-risk endeavor. Moreover, after the discovery of resources, further substantial investments are required to drill development wells and construct production and transportation facilities and other infrastructure. Consequently, long lead times are typically required from the start of a particular project until an investment can be recovered and earnings generated. During this period, changes in the business environment may lead to the need for additional investment (including cases coming from delays in the development schedule), a decline in demand for products, a fall in unit sales prices, an escalation of operating costs and fluctuations in exchange rates, or other negative effects. At the same time, there is a risk that we will be unable to achieve the original investment goals of the project. There is also a variety of technical risks specific to the resource development industry that could affect these investments, including geological uncertainties, such as unexpected declines in reserves and production volume and unanticipated levels of impurities. The emergence of such risks could adversely affect the Group's business results.

A related matter that could have a significant impact on investors' decisions is that in the fiscal year ended March 31, 2013, as a result of a decline in productivity in the Yufutsu Oil and Gas Field (Tomakomai, Hokkaido), we recorded an impairment loss of ¥37,031 million, and in the fiscal year ended March 31, 2014, and we recorded a further impairment loss of ¥7,983 million based on a reevaluation of the same field.

(2) Impact of Energy Market Liberalization

Regulations in the electricity and gas sectors in Japan are being relaxed in various ways with the aim of introducing market mechanisms. In accordance with the regulations of the revised Gas Business Act, which took effect on April 1, 2004, the JAPEX Group is obligated to provide third-party access to some of its pipelines that have a certain level of supply capacity (designated pipelines).

JAPEX believes that such deregulatory moves will invigorate the Japanese gas industry overall and boost demand for natural gas, while also increasing the degree of marketing freedom for the JAPEX Group and leading to an expansion of business fields and customer base. At the same time, however, restructuring the energy market will generate tougher price competition, which may adversely affect the Group's natural gas sales.

(3) Overseas Business Risks

As our overseas business progresses from the stage of exploration to development, it may require substantial investments (capital investments or debt financing), which may affect our financial condition of JAPEX. In cases where an overseas project company in which we have invested procures funds through bank financing or other means, we will sometimes provide a guarantee of debt for all or part of the borrowings. In such cases, should the financial position of the project company deteriorate causing it to default on its obligation, we could be required to fulfill this obligation with respect to the guaranteed amount.

Further, oil resource development in general is predisposed to having a portion of its overseas business conducted in areas with a relatively high level of country risk. There is a possibility that the normal operation of the Group's overseas business could be adversely affected by political or economic turmoil in these countries, as well as by changes in their respective legal systems, tax structures, government policies or other factors.

3. Fluctuations in the Stock Price of INPEX CORPORATION

As of the end of March 2014, JAPEX owned 7.31% of the stock of INPEX CORPORATION. The JAPEX Group's balance of investment securities as of March 31, 2014 was ¥190,765 million. Of this amount, shares of INPEX CORPORATION accounted for ¥143,129 million. As is the case with the JAPEX Group, the results of operations and stock price of INPEX CORPORATION are affected by such factors as trends in crude oil prices. Accordingly, in the event of fluctuations in INPEX CORPORATION's stock price, there is a possibility that the Group's financial position could be affected.

4. JAPEX Shares Held by the Government

JAPEX listed its stock on the First Section of the Tokyo Stock Exchange on December 2003, after the Japan National Oil Corporation (company name at that time) sold a portion of its holdings of our company's stock, reducing its equity share in our company from 65.74% to 49.94%.

Following the abolition of the Japan National Oil Corporation, its holdings of our company's stock were transferred to the government (Minister of Economy, Trade and Industry) as of April 1, 2005. The government subsequently sold 15.94% of its stockholdings in our company through a stock sale with a date of delivery of June 2007, and as a result, the Minister's stockholding in our company has now fallen to 34.00%. There is a continuing possibility that the remaining government-held shares could be sold, which, depending on the timing, method and volume of the sale, could affect our company's stock price.

There is a memorandum that stipulates consultation between the government and JAPEX in regard to changes to the Articles of Incorporation, changes in capital or issuance of bonds, settlement and disposition of earnings, transfer of a portion or all of operations or acquisition of operations, selection of director candidates and matters with a significant influence on assets or operational administration. The memorandum is administered in a way that respects the independent management of JAPEX, and the existence of the memorandum is neither a hindrance to our operations nor a restriction on the scope of our activities.

Corporate Social Responsibility

JAPEX promotes Corporate Social Responsibility (CSR) initiatives in order to coexist and grow with the local community, while building good relationships with a variety of stakeholders through its business activities.

Health, Safety and Environment Management System

Since January 1, 2014, JAPEX has been implementing Health, Safety and Environment HSE*[1] activities (HSE Management System) that integrate health activities into the existing safety and environmental protection activities. We have determined as our policy and objectives our HSE Policy (occupational health, safety and environmental policies), revised on January 1, 2014, and every year each business site autonomously determines its action items and pursues its HSE activities. These HSE activities are reviewed and evaluated at the end of each fiscal year, and the results are reflected in the following year's HSE activities.

By continually implementing improvements in this manner, we are raising the standards of our safety, health and environmental awareness, helping to eliminate industrial accidents, foster a safe and comfortable workplace environment, and protect the environment.

*1 Health, Safety and Environment

Overseas HSE Management System

In the late 1950s, JAPEX commenced overseas exploration and development activities in various countries, including Indonesia, Canada and Australia. A very high level of attention to HSE is expected from E&P companies when carrying out oil and gas operations, and in October 2009 we made the decision to introduce a corporate HSE management system and began implementation the following January. Subsequently, we have conducted regular HSE audits of the projects that it operates such as the Canada oil sands project and exploration and production projects in Indonesia.

We are steadily shifting the operating base of our activities overseas and will be engaged in ventures with various companies in an increasing number of countries. Against this backdrop, we will continue to improve our HSE standards through the efficient use of the PDCA (Plan-Do-Check-Act) cycle.

Environmental Protection Activities

JAPEX is making a wide variety of efforts to promote and expand the use of environment-friendly natural gas by way of activities ranging from exploration to production and sales.

Moreover, we have been working to reduce emissions of volatile organic compounds (VOCs) as well as substances specified under Japan's Pollutant Release and Transfer Register Law (PRTR Law), including the reduction of greenhouse gas emissions, which is an important area of concern for Japan. We have also been engaged in research and development initiatives that will be instrumental in protecting and improving the global environment, including the underground storage of CO_2, recognized as a measure to help prevent global warming.

In addition, in order to implement the items covered by our HSE Policy, we have introduced the ISO 14001 environmental management system (ISO 14001 registration) and endeavor to use this system to reduce environmental impact.

Our environmental initiatives and our CSR Report are disclosed on our website.
http://www.japex.co.jp/english/csr/index.html

Relationship with Society

As an Integral Member of the Local Community

At each of its division and field offices, JAPEX promotes communication and exchange with local communities in order to deepen their understanding of our activities. In addition to welcoming oil and gas field tours by local government authorities and the corporate sector, we allow elementary school students to visit our facilities as part of their curriculum, as well as conducting tours, lectures and seminars to support senior high school and university students in their search for employment. Furthermore, we actively take part in and sponsor local festivals.

Participating in the Akita Kanto Festival

Great East Japan Earthquake Volunteer Activities

With the aim of providing psychological support for children affected by the Great East Japan Earthquake, in August 2013 we invited 11 junior high school students from the town of Minamisanriku in Miyagi Prefecture to Akita Prefecture to take part in a joint softball training camp together with local Akita junior high school students. This is the second time that the camp was held, continuing from the previous year. In addition to the training, the students cooked rice together during the camp and made some large pots of curry. Furthermore, at night some 40 junior high school students formed closer bonds, sleeping together on futons in the big hall with each team taking turns to entertain everyone and so on.

Making curry at the joint softball training camp

Contributions to the Local Community in Garraf, Iraq

JAPEX and PETRONAS are engaged in various activities to contribute to the local community in Garraf region of Iraq. These activities range from renovating elementary schools and giving stationery to elementary schoolchildren to opening mobile healthcare clinics and supplying drinking water to neighboring villages.

Also, JAPEX and PETRONAS provide funds for the maintenance and running of the Garraf Vocational Training Center (GVTC) within the Garraf Oil Field contractual territory. GVTC provides training opportunities for the local people in order to stimulate employment in the area, and accepts around 600 trainees every year. Courses are offered in various subjects, such as electrical wiring, English, IT, and sewing. We have also built a soccer field adjacent to the training center. In Iraq, soccer is a national sport and everyone gets very passionate about it. From January to March 2013, in cooperation with local authorities and NGOs, we held a league tournament for the first time among 12 teams from the surrounding villages. From March to May 2014, we held the 2nd league tournament with an increased number of 18 teams. We hope to make this tournament a major regional event by holding junior league tournaments and other competitions in the future.

A lesson at the Garraf Vocational Training Center

Promoting Diversity

JAPEX endeavors to create a workplace environment in which a wide variety of employees can feel positive and motivated in their work, regardless of gender, nationality and value system. Based on the belief that a diversity of human resources will stimulate greater efficiency and optimization of work practices, we have introduced lectures about initiatives taken by leading companies, in diversity promotion, and have held training sessions on such topics as work-life balance, childrearing and nursing care from 2014.

Looking ahead, we will actively promote diversity through such measures as supporting the active roles for women and the employment of non-Japanese nationals.

Endowed Graduate School Programs

By endowing educational and research programs at universities and graduate schools, JAPEX supports the development of people who can contribute to the securing of stable, long-term energy supplies for Japan.

Currently, we support the Creative Research Institution of Hokkaido University with the following environmental programs: behavior of deep underground coal bed methane and shale gas, Cenozoic petroleum systems and global systems.

Afforestation Activities

As part of efforts to help protect the global environment and contribute to local communities, JAPEX has been carrying out afforestation programs since 2005. Our efforts so far have focused on helping to reduce CO_2 emissions through tree planting activities in the prefectures of Akita, Hokkaido and Niigata. JAPEX is also involved in social environmental protection activities through its investment in the World Bank Bio Carbon Fund.

The JAPEX Yuri-no-Mori Forest in Yurihonjo City, Akita Prefecture

Status of Corporate Governance (Current as of June 30, 2014, unless otherwise noted)

Basic Policy

JAPEX recognizes the importance of corporate governance in increasing earnings through more efficient management and ensuring that we continue playing a valuable role in society. We have therefore adopted an executive officer system, appointed outside directors and corporate auditors who bring to the Company external perspectives, established an internal audit division and put in place effective audit and other systems to maintain and enhance corporate governance.

Corporate Governance

1. Corporate Governance Structure

(1) Outline of Corporate Governance Structure

At JAPEX, representative directors, directors and/or executive officers, whose duties are assigned by the Board of Directors, serve as the Company's operating officers. The Board of Directors and the Board of Corporate Auditors in turn supervise the execution by these directors and officers. JAPEX has adopted the Corporate Auditor System.

The Board of Directors meets regularly once per month and retains decision-making authority over important decisions. It also serves in a supervisory role by receiving reports on the status of operations submitted by directors and executive officers.

Furthermore, from the perspective of increasing the speed of decision-making, an Executive Committee composed of directors and other executives based at the headquarters has been established to make decisions on matters that are not the responsibility of the Board of Directors and to conduct discussions to support the decision-making of the Board of Directors. This Executive Committee meets in principle twice per month, but will also meet at other times when necessary.

In addition, recognizing that fulfilling its Corporate Social Responsibility (CSR) is essential to sustainable development, JAPEX has established a CSR Committee chaired by the president, as well as an Internal Control Committee, HSSE Committee, and Information Security Committee. Through the basic policies formulated by these committees, we systematically promote CSR activities.

(2) Reason for Adopting this Corporate Governance Structure

JAPEX has adopted the Executive Officer System for the purpose of clarifying the business execution structure. Under the system, the representative directors and directors and/or executive officers, whose duties are assigned by the Board of Directors, serve as the Company's operating officers.

In order to strengthen the supervisory function of the Board of Directors, JAPEX also appoints an outside director and outside corporate auditors who hold a high degree of independence and have deep insight. The outside director and outside corporate auditors stand in an independent position from our executive management team to actively offer ideas and advice on resolution proposals and deliberations and engage the Board of Directors in dynamic discussion.

Through a supervisory structure where outside directors and outside corporate auditors provide opinions and supervision to the representative directors and executive officers, who are familiar with each delegated responsibility and act with responsibility, JAPEX believes objectivity and fairness are guaranteed in the decision-making process.

(3) Structures Regarding Internal Control and Risk Management Systems

JAPEX, with the Internal Control Committee and the Auditing Department as its main organs, continually conducts reviews of and implements improvements to its internal control and risk management structures in order to ensure operations are executed appropriately. In compliance with the Companies Act and its enforcement regulations, JAPEX has developed the structures required to ensure appropriate operations are conducted appropriately according to the following principles.

(a) System to Ensure the Execution of Duties by Directors is in Compliance with Relevant Laws and the Articles of Incorporation
In accordance with regulations and resolutions of the Board of Directors, each director, based on their individual responsibilities and authority, promotes mutual supervision through deliberations and reports to the Board. Corporate auditors may offer their opinions to the Board where necessary.

(b) System to Store and Manage Information Related to the Execution of Duties by Directors
Minutes of meetings of the Board of Directors, management approval documents, contracts and important documents that show the status of the execution of business matters are stored. The details of how these documents are handled are determined by specific document handling regulations.

(c) Regulations and Other Systems to Manage Risk Related to Losses
Credit management regulations, market risk management and derivative trading regulations and emergency response procedures are reviewed, and where necessary, procedural manuals created and other steps taken from the perspective of risk management.

(d) System to Ensure Directors Execute Their Duties Efficiently
In principle, the Board of Directors meets monthly to conduct swift decision-making on matters requiring a resolution of the Board of Directors as determined in advance through discussion by the Executive Committee. The Board also ensures efficient business execution by delegating authority in accordance with decisions and authorization regulations.

(e) System to Ensure the Duties and Actions of Employees Comply with Relevant Laws and the Articles of Incorporation
The duties of employees are managed in accordance with regulations for each administrative process and procedural manuals in each department. The Auditing Department monitors the effectiveness of internal control systems and reports the results to the president.

(f) System to Ensure Appropriate Business Activities by the JAPEX Group
The parent company's Internal Control Committee is responsible for communicating JAPEX's internal control policy to principal Group companies, and manages Group companies in accordance with the rules for administering subsidiaries and affiliated companies. In addition, the parent company's Auditing Department conducts regular audits of principal Group companies.

(g) Matters Related to Employees Requested by Corporate Auditors to Support Audit Activities
At least one employee must be assigned to the secretariat of the Board of Corporate Auditors to perform duties as instructed by the Board of Corporate Auditors.

(h) Independence of Employees Mentioned in the Previous Item from Directors
Appointments, transfers and other personnel matters related to the employee(s) appointed to the secretariat of the Board of Corporate Auditors require the prior approval of the Board of Corporate Auditors.

(i) System to Allow Directors and Employees to Report Information to Corporate Auditors and Other Related Reporting Systems
The directors must submit reports to the corporate auditors at monthly meetings of the Board of Directors and refer the corporate auditors to management approval documents. In the event that directors discover facts that could lead to substantial damages to the Company, they must immediately report them to the Board of Corporate Auditors.

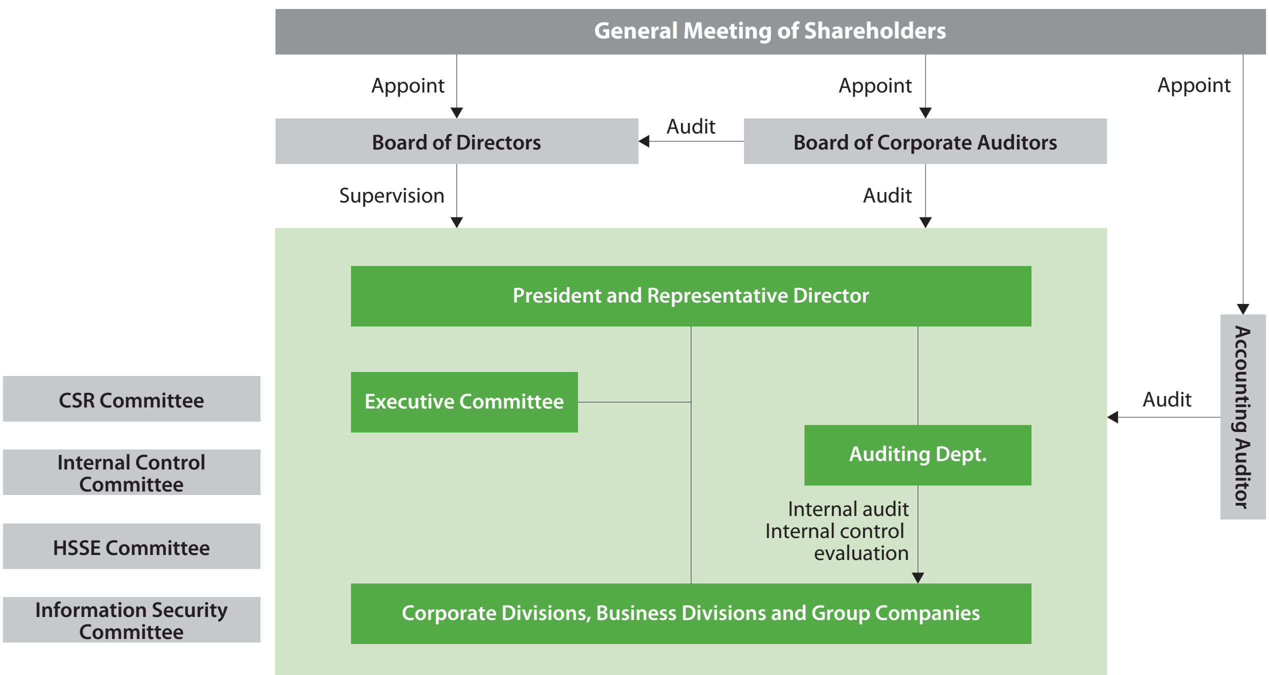
(j) Other Systems to Ensure Corporate Auditor Activities are Conducted Effectively
The Auditing Department and the accounting auditor must regularly provide information to the corporate auditors.

(k) System to Ensure the Appropriateness of Documents and Other Information Pertaining to Financial Calculations
To ensure the reliability of financial statements, an internal control system related to financial statements is established and effectively operated, and its effectiveness is evaluated.

In addition, JAPEX, in executing decisions regarding business matters, makes organizational decisions at the Executive Committee or when necessary at the Board of Directors, based on an assessment of operational risk (planning, strategy, finance, and credit risk) that is the responsibility of directors and executive officers in charge of each business group.

JAPEX conducts business operations through discussion according to this phased approach to decision making, and has developed a framework for managing operational risk, including the creation of various operating manuals developed for the execution phase. In addition, the Internal Control Committee and Auditing Department create risk-mapping scenarios for specific operational risks and conduct reviews of risk management structures that include principal Group companies.

Corporate Governance and Internal Control Structure



2. Internal Audits and Audits Performed by the Corporate Auditors

Internal audits of JAPEX are conducted by the Auditing Department under the direct management of the president. The Auditing Department has four staff members who are responsible for conducting internal audits, in which they check to see that business operations in each department are carried out in accordance with laws and internal regulations.

The internal audits are conducted sequentially based on an annual plan, with the results reported to the president each time. When necessary, guidance and advice are also provided to relevant business departments.

Corporate auditors attend meetings of the Board of Directors. Full-time corporate auditors perform their supervisory function to attend the Executive Committee and other important meetings, as well as exchange opinions as necessary with various directors and executive officers that are responsible for business execution.

JAPEX appoints four corporate auditors, two of whom are outside corporate auditors. Each corporate auditor executes their auditing authority independently based on auditing policy and the assignment of auditing responsibilities that are decided by the Board of Corporate Auditors.

The Board of Corporate Auditors receives explanations on the audit plan and its implementation at the time of receipt of the audit report from the accounting auditor, while full-time corporate auditors also receive implementation status reports of accounting audits when necessary.

The internal audit report is executed by the Auditing Department, and submitted to the president, the Board of Corporate Auditors and the accounting auditor. The Auditing Department also regularly reports the status of the audit to the Full-time Corporate Auditors.

The corporate auditors possess considerable knowledge of finance and accounting considering their previous experience. Morio Ishizeki, Full-time Corporate Auditor, has experience through his many years in accounting and other works at JAPEX. Masahiko Kadotani, Corporate Auditor, has experience through executing government affairs at the Ministry of Finance. Norio Nakajima, Outside Corporate Auditor, has experience through his many years at a financial institution.

3. Outside Directors and Outside Corporate Auditors

JAPEX has one Outside Director and two Outside Corporate Auditors. There are no concerns between the Outside Director, the Outside Corporate Auditors and JAPEX about personal, capital, transactional, or other relationships. Norio Nakajima, Outside Corporate Auditor, was an executive officer of Mizuho Bank, Ltd., a major business counterpart for JAPEX, but more than five years have passed after his retirement. Mizuho Bank held 1.26% of JAPEX issued shares as of March 31, 2014, and there is a loan transaction relationship between Mizuho Bank and JAPEX as one of our principal lenders. However, they do not have influence over our company's decision making due to their small shareholding ratio of our company's stocks. In addition, the share of our total debt from them was approximately 27% as of March 31, 2014, and there is no potential conflict of interest with other general shareholders.

JAPEX believes that it has strengthened functions of the Board of Directors as a supervisory organization by appointing an outside director with a high level of insight, while it ensures lively discussion at Board of Directors meetings with the Outside Director and Outside Corporate Auditors actively sharing opinions and advice regarding proposals or deliberations from their independent standpoints. In appointing the Outside Director and Outside Corporate Auditors, we have selected appropriate persons that have knowledge and experience, such as a legal specialist, or a wealth of experience and high-level knowledge of governmental offices, financial institutions, and others, whom we deem to have objective and expert perspectives, no conflict with general shareholders, and a neutral and fair stance for pursuing common interests with shareholders. In addition, the selection of the current Outside Director and Outside Corporate Auditors has been validated based on a corporate governance perspective that accounts for the mix and number of Directors and Corporate Auditors of the Company. Furthermore, as members of the Board of Corporate Auditors, Outside Corporate Auditors receive prior explanations of audit plans from the Accounting Auditor, and explanations about the status and result of the audit when they receive reports. Internal audit reports conducted by the Auditing Department, as well as internal control reports are also presented and explained to the Board of Corporate Auditors.

Status of Concurrent Appointments among Outside Directors and Outside Corporate Auditors and Reason for Appointment

	Name	Important Concurrent Appointments	Reason for Appointment	Attendance at Board of Directors and Board of Corporate Auditors Meetings (for the fiscal year ended March 31, 2014)
Outside Director	Kazuo Kawakami	Lawyer	To have Mr. Kawakami use his knowledge and experience as a legal expert to assist in management	Board of Directors 15 out of 16 meetings
Outside Corporate Auditors	Masahiko Kadotani	Statutory Auditor, HEIWA REAL ESTATE CO., LTD., Corporate Auditor, PRONEXUS Inc.	To have Mr. Kadotani use his wealth of experience and high level of knowledge from government agencies and private companies, etc., in a supervisory role at the Company	Board of Directors 15 out of 16 meetings Board of Corporate Auditors 17 out of 17 meetings
	Norio Nakajima	—	To have Mr. Nakajima use his wealth of management experience and high level of knowledge from financial institutions in a supervisory role at the Company	—

4. Remuneration of Directors and Corporate Auditors

1) Total Remuneration, Breakdown of Remuneration and Number of Applicable Officers by Class

(FY2014)

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Base Pay	Bonus	Retirement Benefits	
Directors (Excluding the Outside Director)	578	367	92	118	15
Corporate auditors (Excluding the Outside Corporate Auditors)	50	35	4	10	3
Outside Director and Outside Corporate Auditors	46	36	—	10	3

Note: The number of officers above includes two directors and one corporate auditor who retired at the conclusion of the Company's 43rd Annual General Meeting of Shareholders on June 25, 2013.

2) Director Remuneration Policy

The basic or monthly remuneration for each director is determined by the president based on a resolution passed by the Board of Directors, while monthly remuneration for each corporate auditor is determined based on discussions among corporate auditors. Monthly remuneration is set within the respective ceilings determined by resolutions of the General Meeting of Shareholders (directors: ¥40 million (resolution of the 37th Annual General Meeting of Shareholders held on June 25, 2007); corporate auditors: ¥6 million (resolution of the 43rd Annual General Meeting of Shareholders held on June 25, 2013)).

Based on approval obtained at a General Meeting of Shareholders, the total bonus paid to each director is determined by the president based on a resolution passed by the Board of Directors, while the total bonus paid to each corporate auditor is determined based on discussions among corporate auditors.

Based on a resolution passed at a General Meeting of Shareholders, retirement benefits are awarded to a retiring director or corporate auditor following the prescribed standard of the Company, with the specific amount, payment date and method determined voluntarily for a retiring director by the Board of Directors and through a discussion among corporate auditors for a retiring corporate auditor.

5. Matters Concerning the Accounting Auditor and Details of Compensation Paid to Auditing Certified Public Accountant

The accounting auditor who conducted the audit of our company's financial statements and the internal control practices for fiscal year (FY) 2014 was Ernst & Young ShinNihon LLC. The amount of compensation paid to the auditing certified public accountant was determined in consideration of the number of days spent to conduct the audit.

Compensation of Auditing Certified Public Accountant

(FY2014)

Name of Accounting Auditor	Ernst & Young ShinNihon LLC
Name of auditing certified public accountant	Kazuhiko Umemura, Satoshi Takahashi
Breakdown of assistants to the audit	Certified public accountants: 12 Other assistants: 13
Compensation based on auditing and attestation	JAPEX: ¥68 million Consolidated subsidiaries: ¥23 million
Compensation based on other services	JAPEX: ¥1 million Consolidated subsidiaries: ¥2 million

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Five-Year Summary

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	2014	2013	2012	2011	2010
For the Year:					Millions of yen
Net sales	**¥ 276,588**	¥ 231,086	¥ 230,638	¥ 199,651	¥ 179,752
Cost of sales	**210,460**	172,075	174,359	144,919	125,467
Exploration expenses	**9,800**	13,086	7,805	9,798	10,396
Selling, general and administrative expenses	**31,692**	32,017	33,426	31,084	30,769
Operating income	**24,634**	13,906	15,045	13,849	13,119
Net income (loss)	**29,015**	(865)	17,027	10,010	17,939
Capital expenditures	**127,241**	25,355	23,806	21,975	28,835
Depreciation and amortization	**15,567**	16,294	23,902	24,587	23,237
Cash flows from operating activities	**45,226**	34,254	37,172	34,284	38,948
Cash flows from investing activities	**(131,600)**	(14,836)	(13,950)	(24,282)	(29,300)
Cash flows from financing activities	**71,680**	(7,177)	9,856	(521)	(4,054)
At Year-End:					Millions of yen
Total assets	**¥ 663,038**	¥ 525,172	¥ 532,890	¥ 516,098	¥ 521,009
Net assets	**496,915**	403,625	406,773	393,689	398,747
Long-term loans payable	**21,636**	24,197	26,198	26,898	24,471
Per Share Data:					Yen
Net assets per share	**¥7,389.62**	¥6,691.58	¥6,869.27	¥6,743.83	¥6,839.05
Net income (loss) per share	**507.68**	(15.14)	297.92	175.16	313.88
Cash dividends per share (full-year)	**50.00**	40.00	40.00	40.00	40.00
Other Data:					People
Number of employees	**1,782**	1,747	1,743	1,728	1,735

Management's Discussion and Analysis

Scope of Operations

The JAPEX Group (the Company and its subsidiaries and affiliates) comprises the Company, 29 subsidiaries and 19 affiliates as of March 31, 2014. The Group's oil and natural gas-related operations make up the core of its business activities. In addition to its endeavors in Japan, the JAPEX Group works diligently to develop business overseas through its project companies established at each business base.

Analysis of Operating Results

Overview

As regards operating results in fiscal year (FY) 2014 that ended March 31, 2014, net sales were ¥276,588 million, an increase of ¥45,502 million, or 19.7%, compared with the previous fiscal year. Operating income rose ¥10,728 million, or 77.1%, year on year to ¥24,634 million, and net income was ¥29,015 million, up ¥29,880 million from a net loss in the previous fiscal year.

Crude Oil Prices and Exchange Rates

The average unit sales price of crude oil received by JAPEX during FY2014 in terms of year-round average sales price was ¥69,497 per kiloliter, an increase of ¥10,474 per kiloliter compared with the previous fiscal year.

The sales price of domestic crude oil is essentially linked to yen translations of the price of imported crude oil. On a dollar basis, the weighted average price of crude oil based on the Japan Crude Cocktail (JCC) price was $110.51 per barrel, down $4.16 from the level per barrel of the previous fiscal year. Compared with the previous fiscal year, the yen depreciated ¥17.60 relative to the dollar, for a weighted average exchange rate of ¥99.31.

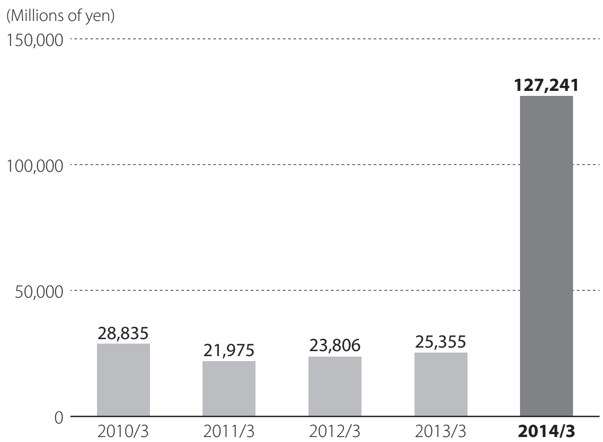
For sales of imported crude oil, fluctuations in crude oil prices and foreign exchange rates have a limited effect on earnings because the sales price is linked to changes in the purchase price.

In addition, the weighted average unit sales price of bitumen in Canadian dollars was C$51.67 per barrel, which was up by C$0.96 compared with FY2013. Whereas, the weighted average exchange rate was ¥98.42 to the Canadian dollar, as the yen depreciated by ¥11.37 relative to the Canadian dollar year on year.

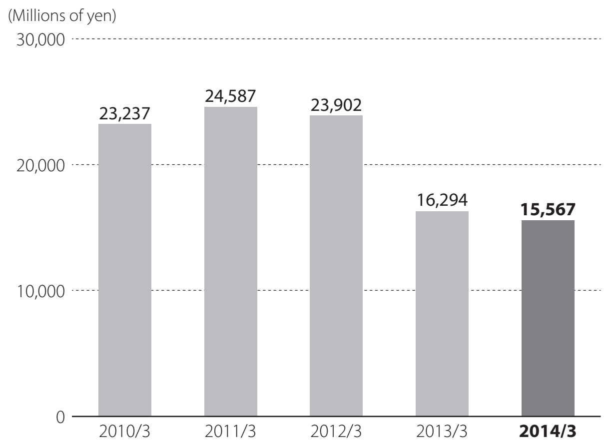
Capital Expenditures and Depreciation

Capital expenditures increased ¥101,886 million year on year to ¥127,241 million. Major components of these expenditures included investments related to shale gas development and production projects in Canada, as well as oil sands development. Depreciation and amortization expenses fell

Capital Expenditures



Depreciation and Amortization



¥726 million compared with the previous fiscal year to ¥15,567 million.

Payments of recoverable accounts rose ¥8,492 million to ¥20,533 million, mainly for the development of the Garraf Oil Field in Iraq. Recovery of recoverable accounts totaled ¥13,749 million.

Exploration Activities

Exploration expenses (after excluding government subsidies) decreased ¥3,285 million year on year to ¥9,800 million.

Domestic exploration costs were primarily attributed to delineation wells in Hokkaido and Niigata, and seismic surveys in Niigata. Overseas exploration costs mainly comprised extension activities in Indonesia.

Net Sales

In FY2014, net sales in E&P totaled ¥217,157 million, accounting for 78.5% of the total. Net sales of Contract Services were ¥8,740 million, or 3.2% of the total. Net sales of Other Businesses were ¥50,691 million, representing 18.3% of the total. The following is an analysis of net sales in E&P, which accounts for the largest share of sales.

In FY2014, the volume of crude oil sales increased 224 thousand kiloliters, or 16.8%, to 1,559 thousand kiloliters compared with FY2013. This sales volume growth mainly reflected the start of crude oil production at the Garraf Oil Field in Iraq. Total crude oil sales increased ¥29,573 million year on year, or 37.5%, to ¥108,408 million, due to an increased sales volume. Another factor was higher sales prices reflecting the yen's depreciation, despite lower oil prices.

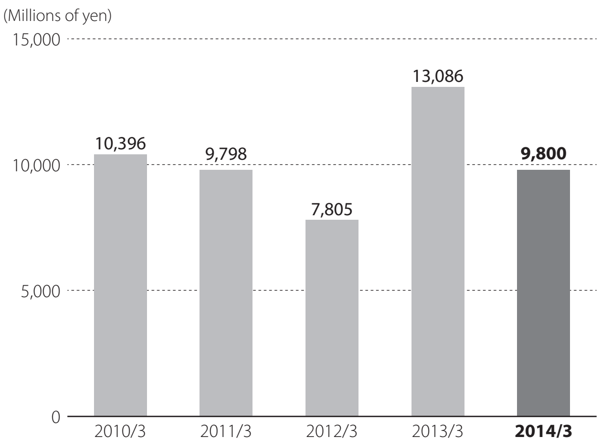
The volume of natural gas sales decreased 36 million m^3 year on year, or 2.5%, to 1,418 million m^3. The unit sales price rose ¥2.50 per m^3 to ¥50.45 per m^3. As a result, sales of natural gas increased ¥1,789 million, or 2.6%, to ¥71,584 million compared with the previous fiscal year. The main reason behind decreasing sales volume of natural gas was the decline in domestic commercial-use sales.

Sales volume for LNG increased 39 thousand tons, or 17.1%, year on year to 268 thousand tons. LNG sales grew ¥7,103 million, or 37.2%, to ¥26,202 million.

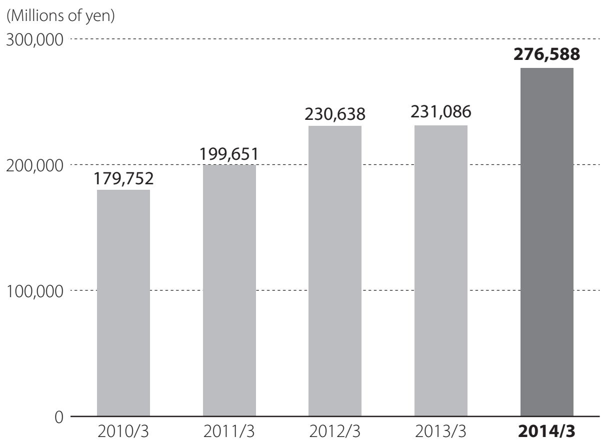
Sales volume for bitumen decreased 6 thousand kiloliters, or 1.9%, compared with FY2013 to 342 thousand kiloliters. In monetary terms, however, bitumen sales increased ¥1,267 million, or 13.1%, year on year to ¥10,962 million.

Operating Expenses

Exploration expenses



Net Sales



The cost of sales increased ¥38,385 million compared with the previous fiscal year to ¥210,460 million. This was mainly the result of the increases in sales volume of crude oil from overseas.

Selling, general and administrative (SG&A) expenses decreased from the previous fiscal year, falling ¥324 million to ¥31,692 million.

Please see the Exploration Activities section for information on exploration expenses on page 42.

As a result of these factors, operating income increased ¥10,728 million compared with FY2013 to ¥24,634 million.

Non-operating Income (Loss)

Non-operating income rose ¥5,449 million year on year to ¥20,584 million. This mainly reflected an increase in equity method investment gains following the conversion of Sakhalin Oil and Gas Development Co., Ltd. into an equity method affiliate through the acquisition of additional shares in the company in FY2013. This was despite an attendant decrease in dividend income following the same conversion. Meanwhile, non-operating expenses were ¥1,329 million, an increase of ¥370 million from FY2013. This was mainly due to higher interest expenses, despite a smaller loss on sales of securities.

Extraordinary Gain (Loss)

Extraordinary gain was ¥42 million, down ¥3,197 million from FY2013. This mainly reflects the posting of a gain on transfer of interest accompanying the transfer of bitumen interest by Japan Canada Oil Sands Limited in the previous fiscal year. Meanwhile, extraordinary loss was ¥8,347 million, a decrease of ¥29,414 million from FY2013. The main factor was a decline in impairment loss on business assets related to production operations in the Yufutsu Oil and Gas Field in Hokkaido.

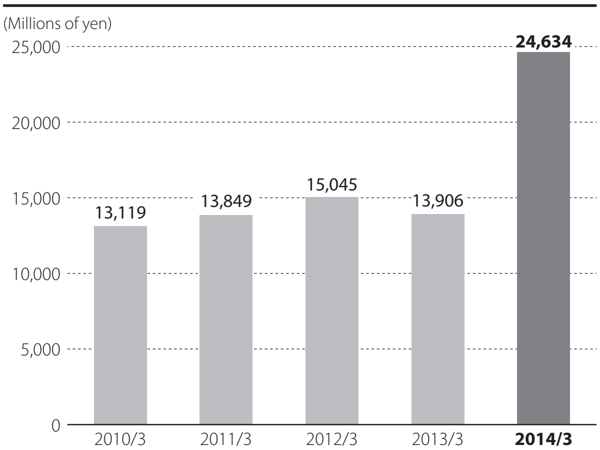
As a result, income before income taxes and minority interests increased ¥42,024 million year on year to ¥35,584 million.

Net Income

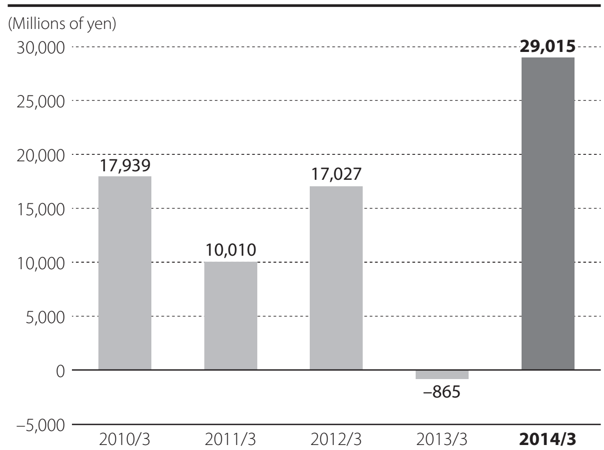
For the fiscal year under review, the total of current and deferred income taxes was ¥5,566 million, an increase of ¥12,494 million from the previous fiscal year. This figure was principally attributable to an increase in current taxes, mainly due to decreases in the posting of deferred taxes accompanying the posting of the aforementioned impairment losses.

Minority interests amounted to ¥1,002 million, a decrease of ¥350 million from the previous fiscal year.

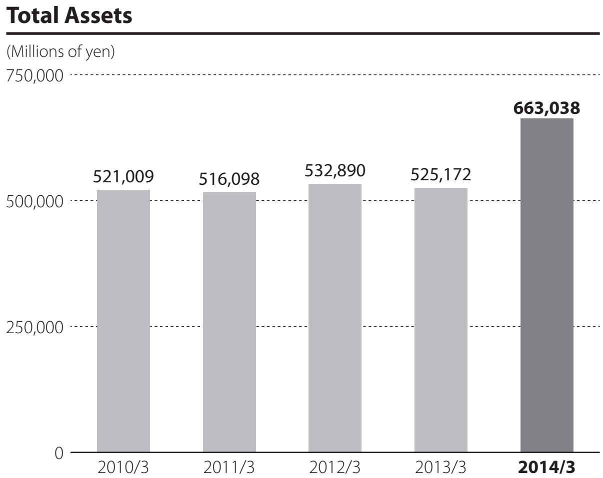
Operating Income

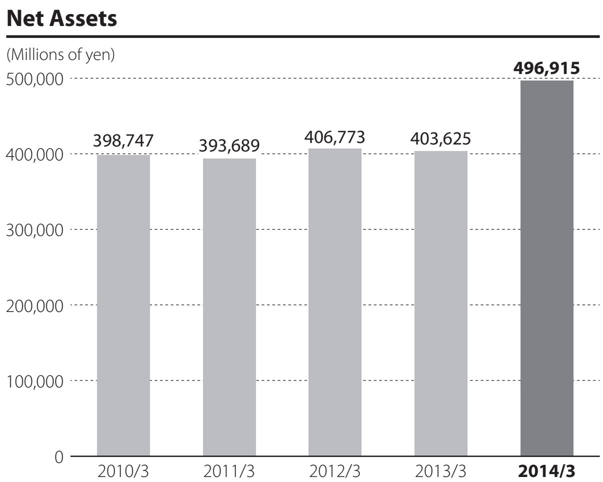


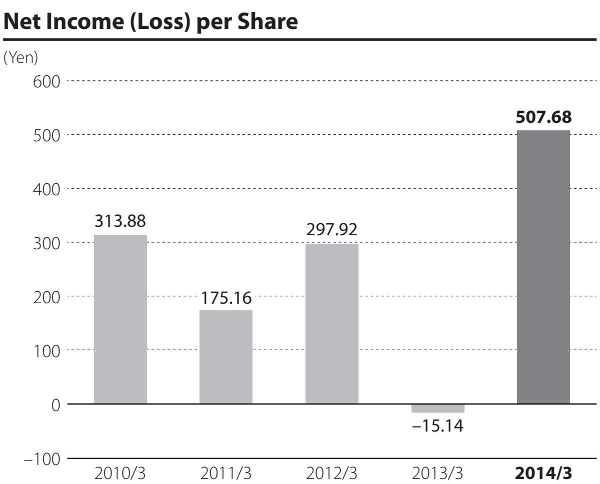
Net Income (Loss)

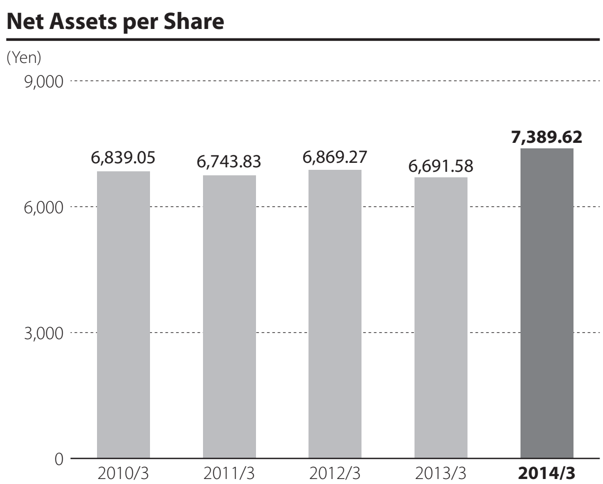


Accounting for the above factors, after deducting income taxes (following the application of tax effect accounting) and minority interests, the Company recorded a net income of ¥29,015 million, up ¥29,880 million year on year from the net loss of the previous year.









Analysis of Financial Position and Cash Flows

Balance Sheet

Total assets at the end of FY2014 stood at ¥663,038 million, an increase of ¥137,865 million year on year, mainly due to an increase in non-current assets.

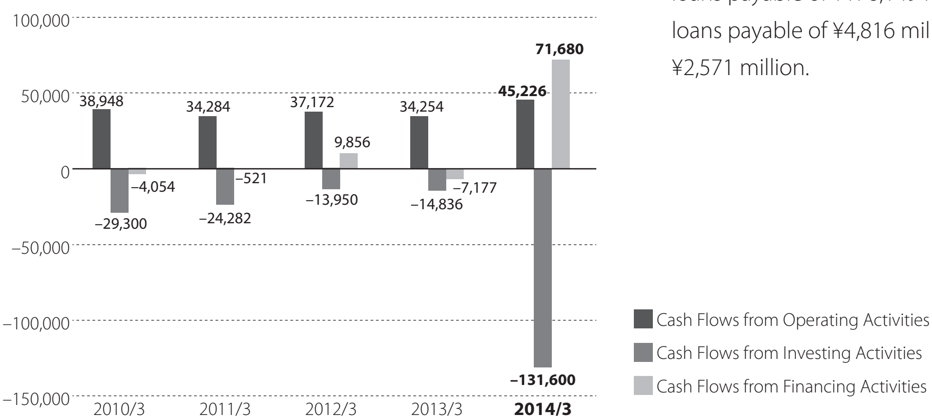
Primary fluctuations in current assets were decreases in securities and short-term loans receivable based on repo transactions, despite an increase in cash and deposits.

The main factors for change in non-current assets were as follows. In property, plant and equipment, there was the recognition of assets relating to a project for the development and production of shale gas in British Columbia, Canada and an increase in the investments relating to the development of oil sands in the Hangingstone area in Alberta, Canada. Furthermore, in investments and other assets, there was a rise in the stock prices of INPEX CORPORATION and other companies, and an increase in the investments relating to development of the Garraf Oil Field in Iraq.

Total liabilities at the fiscal year-end had increased by ¥44,575 million year on year to ¥166,123 million, mainly the result of increases in short-term loans payable and accounts payable relating to capital investment included in other under current liabilities. Total net assets increased by ¥93,290 million year on year to ¥496,915 million, mainly due to increases in retained earnings, valuation difference on available-for-sale securities and minority interests.

Cash Flows

(Millions of yen)



Cash Flows

As of March 31, 2014, cash and cash equivalents (hereinafter "net cash") totaled ¥102,830 million, down ¥9,809 million compared with the end of the previous fiscal year. Below is a summary of cash flows for each activity.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥45,226 million. The main contributing factors were income before income taxes and minority interests of ¥35,584 million, depreciation and amortization of ¥15,567 million and recovery of recoverable accounts of ¥13,749 million. The main factors reducing cash were share of profit of entities accounted for using equity method of ¥12,140 million and an increase in notes and accounts receivable-trade of ¥4,766 million.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥131,600 million. Major cash outflows were purchase of property, plant and equipment of ¥121,283 million and payments of recoverable accounts of ¥20,553 million. These items were partly offset by interest and dividend income received of ¥13,702 million.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥71,680 million. Major cash inflows were an increase in short-term loans payable of ¥206,318 million and proceeds from share issuance to minority shareholders of ¥52,383 million. These proceeds exceeded such cash outflows as a decrease in short-term loans payable of ¥178,149 million, repayments of long-term loans payable of ¥4,816 million and cash dividends paid of ¥2,571 million.

Financial Policy

JAPEX and its consolidated subsidiaries manage working capital, capital expenditures and other financial policies according to the following practices.

Working capital is primarily procured using internal funds. Some consolidated subsidiaries, however, when temporarily in need of working capital as a result of gaps in the timing between fixed payments and accounts receivable, procure working capital from intercompany loans, or if this is not sufficient, then through short-term debt. We had executed short-term debt of ¥28,169 million as of the end of FY2014, as opposed to no such debt as of the end of FY2013. In addition, the Company also maintains an overdraft facility in the amount of ¥17,293 million signed with six of its banking partners to be used for working capital when required.

Funds used for capital investments and overseas investments are also primarily procured using internal funds. When the investment amount warrants, however, long-term debt financing is occasionally used in light of the quality of the project and the balance of liquidity in hand. The total of long-term loans payable scheduled to mature within one year as of the end of FY2014 and other long-term loans payable was down ¥2,241 million compared with the end of FY2013 to ¥26,519 million. A breakdown of long-term loans payable includes ¥1,554 million for the Shiroishi–Koriyama gas pipeline construction project, and ¥24,665 million for the development of the Kangean Block in Indonesia.

In addition, as of the end of FY2014, the JAPEX Group maintained contingent liabilities totaling ¥32,517 million for guarantees of bank and other financing used for operating capital of overseas project companies and for employee home loans. Provisions for these obligations, however, ensure adequate liquidity through cash on hand and marketable securities.

Dividend Policy

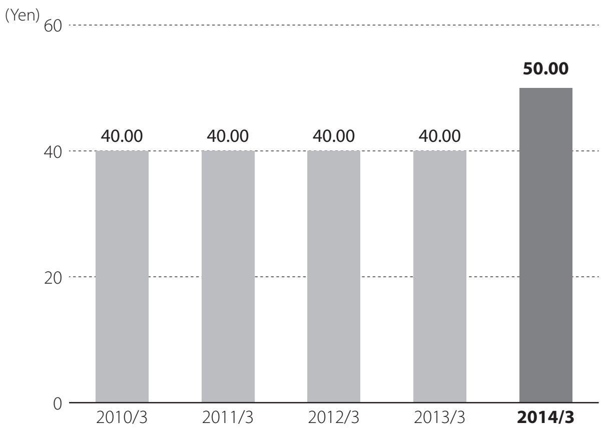
JAPEX has adopted a basic policy of consistently paying stable dividends over the long term. We set the specific amount of dividends taking into account the need to maintain internal reserves while returning profits to shareholders, based on the outlook for the business environment over the medium to long term.

Our basic policy is to pay dividends on surplus twice a year, in the form of interim and year-end dividends. The interim dividend is determined by resolution of the Board of Directors, whereas the year-end dividend is determined by resolution of the General Meeting of Shareholders.

Under this basic policy, we have decided to issue a dividend for FY2014 of ¥50 per share, comprising interim and year-end dividends of ¥25 each. We plan to use internal reserves mainly to fund investments aimed at securing new proved reserves worldwide and to develop and expand our supply infrastructure.

In accordance with the stipulations of Paragraph 5, Article 454 of the Companies Act of Japan, the Company's Articles of Incorporation permit the interim dividend to be determined by resolution of the Board of Directors, with September 30 as the record date.

Cash Dividends per Share (Full-year)



CONSOLIDATED BALANCE SHEET

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2014**	2013	**2014**
Current assets:			
Cash and deposits (Notes 10 and 19)	**¥ 81,031**	¥ 53,870	**$ 794,421**
Notes and accounts receivable - trade (Note 10)	**37,222**	32,337	**364,921**
Securities (Notes 4, 10 and 19)	**41,203**	53,414	**403,950**
Merchandise and finished goods (Note 3)	**4,653**	4,490	**45,617**
Work in process (Note 3)	**128**	77	**1,254**
Raw materials and supplies (Note 3)	**6,285**	7,007	**61,617**
Deferred tax assets (Note 6)	**1,127**	1,210	**11,049**
Short-term loans receivable (Note 10)	**13,831**	31,418	**135,598**
Other	**9,772**	4,850	**95,803**
Less — allowance for doubtful accounts	**(48)**	(31)	**(470)**
Total current assets	**195,209**	188,645	**1,913,813**
Non-current assets:			
Property, plant and equipment (Note 16):			
Land	**12,193**	12,175	**119,539**
Buildings and structures	**151,904**	149,528	**1,489,254**
Wells	**80,675**	71,121	**790,931**
Machinery, equipment and vehicles	**111,305**	113,055	**1,091,225**
Construction in progress	**88,541**	2,957	**868,049**
Other	**46,699**	18,932	**457,833**
Less — accumulated depreciation	**(290,767)**	(277,087)	**(2,850,656)**
Total property, plant and equipment	**200,552**	90,683	**1,966,196**
Intangible assets:			
Other	**11,365**	10,394	**111,421**
Total intangible assets	**11,365**	10,394	**111,421**
Investments and other assets:			
Investment securities (Notes 4 and 10)	**190,765**	177,304	**1,870,245**
Long-term loans receivable (Note 10)	**29,100**	30,331	**285,294**
Deferred tax assets (Note 6)	**6,039**	5,959	**59,205**
Other (Note 4)	**34,329**	26,515	**336,558**
Less — allowance for doubtful accounts	**(39)**	(31)	**(382)**
Less — allowance for overseas investment loss	**(4,284)**	(4,630)	**(42,000)**
Total investments and other assets	**255,910**	235,449	**2,508,921**
Total non-current assets	**467,828**	336,526	**4,586,549**
Total assets	**¥ 663,038**	¥ 525,172	**$ 6,500,372**

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Current liabilities:			
Notes and accounts payable - trade (Note 10)	**¥ 23,610**	¥ 18,947	**$ 231,470**
Short-term loans payable (Note 10)	**28,169**	–	**276,166**
Provision for directors' bonuses	**118**	23	**1,156**
Provision for loss on disaster	–	1	–
Other (Notes 5 and 6)	**31,555**	22,182	**309,362**
Total current liabilities	**83,454**	41,155	**818,176**
Non-current liabilities:			
Long-term loans payable (Notes 5 and 10)	**21,636**	24,197	**212,117**
Deferred tax liabilities (Note 6)	**32,509**	31,983	**318,715**
Provision for retirement benefits (Note 7)	–	6,938	–
Provision for directors' retirement benefits	**829**	802	**8,127**
Net defined benefit liability (Note 7)	**6,845**	–	**67,107**
Asset retirement obligations (Notes 2(15) and 12)	**16,001**	10,858	**156,872**
Other (Note 5)	**4,845**	5,611	**47,500**
Total non-current liabilities	**82,668**	80,391	**810,470**
Total liabilities	**166,123**	121,547	**1,628,656**
Commitment and contingent liabilities (Notes 9, 11 and 13)			
Net assets (Note 8)**:**			
Shareholders' equity:			
Capital stock:			
Authorized — 120,000,000 shares			
Issued — 57,154,776 shares as of March 31, 2014 and 2013	**14,288**	14,288	**140,078**
Retained earnings	**318,433**	291,990	**3,121,892**
Treasury shares; 2,139 shares as of March 31, 2014 and 2013	**(10)**	(10)	**(98)**
Total shareholders' equity	**332,711**	306,268	**3,261,872**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**84,856**	78,310	**831,921**
Deferred gains or losses on hedges	**(56)**	226	**(549)**
Foreign currency translation adjustment	**5,166**	(2,362)	**50,647**
Remeasurements of defined benefit plans	**(340)**	–	**(3,333)**
Total accumulated other comprehensive income	**89,624**	76,173	**878,666**
Minority interests	**74,579**	21,183	**731,166**
Total net assets	**496,915**	403,625	**4,871,715**
Total liabilities and net assets	**¥ 663,038**	¥ 525,172	**$ 6,500,372**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales	¥ 276,588	¥ 231,086	$ 2,711,647
Cost of sales (Note 3)	210,460	172,075	2,063,333
Gross profit	66,127	59,010	648,303
Exploration expenses	9,985	13,086	97,892
Exploration subsidies	(184)	–	(1,803)
	9,800	13,086	96,078
Selling, general and administrative expenses (Note 15)	31,692	32,017	310,705
Operating income	24,634	13,906	241,509
Other income (expenses):			
Interest income	2,341	2,085	22,950
Dividend income	2,366	9,628	23,196
Gain (loss) on sales of securities, net	693	220	6,794
Share of profit (loss) of entities accounted for using equity method	12,140	753	119,019
Foreign exchange gains (losses)	1,173	1,534	11,500
Interest expenses	(839)	(275)	(8,225)
Loss on valuation of securities	–	(1)	–
Loss on valuation of derivatives	(147)	(208)	(1,441)
Share issuance costs	(155)	(43)	(1,519)
Gain on sales of non-current assets	2	53	19
Subsidy income	40	345	392
Gain on transfer of mining rights	–	2,829	–
Loss on retirement of non-current assets	(145)	(667)	(1,421)
Impairment loss (Note 16)	(7,983)	(37,094)	(78,264)
Other, net	1,462	495	14,333
	10,949	(20,346)	107,343
Income (loss) before income taxes and minority interests	35,584	(6,439)	348,862
Income taxes (Note 6):			
Income taxes - current	6,825	3,352	66,911
Income taxes - deferred	(1,258)	(10,279)	(12,333)
	5,566	(6,927)	54,568
Income before minority interests	30,017	487	294,284
Minority interests in income	1,002	1,352	9,823
Net income (loss) (Note 18)	¥ 29,015	¥ (865)	$ 284,460

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Income before minority interests	**¥ 30,017**	¥ 487	**$ 294,284**
Other comprehensive income (Note 20)**:**			
Valuation difference on available-for-sale securities	**6,543**	(11,043)	**64,147**
Deferred gains or losses on hedges	**(288)**	221	**(2,823)**
Foreign currency translation adjustment	**9,486**	3,389	**93,000**
Share of other comprehensive income of entities accounted for using equity method	**39**	(12)	**382**
Total other comprehensive income	**15,781**	(7,444)	**154,715**
Comprehensive income	**¥ 45,798**	¥ (6,957)	**$ 449,000**
Comprehensive income attributable to (Note 20)**:**			
Owners of parent	**¥ 42,807**	¥ (8,709)	**$ 419,676**
Minority interests	**2,991**	1,751	**29,323**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen			
	Shareholders' equity			
	Capital stock	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2012	¥ 14,288	¥ 294,323	¥ (10)	¥ 308,601
Dividends from surplus		(2,286)		(2,286)
Net income (loss)		(865)		(865)
Change of scope of equity method		817		817
Net changes of items other than shareholders' equity				
Total changes of items during period	–	(2,333)	–	(2,333)
Balance as of March 31, 2013	**14,288**	**291,990**	**(10)**	**306,268**
Dividends from surplus		**(2,571)**		**(2,571)**
Net income (loss)		**29,015**		**29,015**
Change of scope of equity method				**–**
Net changes of items other than shareholders' equity				
Total changes of items during period	**–**	**26,443**	**–**	**26,443**
Balance as of March 31, 2014	**¥ 14,288**	**¥ 318,433**	**¥ (10)**	**¥ 332,711**

	Millions of yen						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of April 1, 2012	¥ 89,366	¥ 20	¥ (5,391)	¥ –	¥ 83,995	¥ 14,176	¥ 406,773
Dividends from surplus							(2,286)
Net income (loss)							(865)
Change of scope of equity method							817
Net changes of items other than shareholders' equity	(11,056)	206	3,028	–	(7,822)	7,007	(814)
Total changes of items during period	(11,056)	206	3,028	–	(7,822)	7,007	(3,147)
Balance as of March 31, 2013	**78,310**	**226**	**(2,362)**	**–**	**76,173**	**21,183**	**403,625**
Dividends from surplus							**(2,571)**
Net income (loss)							**29,015**
Change of scope of equity method							**–**
Net changes of items other than shareholders' equity	**6,546**	**(283)**	**7,529**	**(340)**	**13,451**	**53,395**	**66,846**
Total changes of items during period	**6,546**	**(283)**	**7,529**	**(340)**	**13,451**	**53,395**	**93,290**
Balance as of March 31, 2014	**¥ 84,856**	**¥ (56)**	**¥ 5,166**	**¥ (340)**	**¥ 89,624**	**¥ 74,579**	**¥ 496,915**

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)			
	Shareholders' equity			
	Capital stock	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of March 31, 2013	**$ 140,078**	**$ 2,862,647**	**$ (98)**	**$ 3,002,627**
Dividends from surplus		**(25,205)**		**(25,205)**
Net income (loss)		**284,460**		**284,460**
Change of scope of equity method				–
Net changes of items other than shareholders' equity				
Total changes of items during period	–	**259,245**	–	**259,245**
Balance as of March 31, 2014	**$ 140,078**	**$ 3,121,892**	**$ (98)**	**$ 3,261,872**

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of March 31, 2013	**$ 767,745**	**$ 2,215**	**$ (23,156)**	**$ –**	**$ 746,794**	**$ 207,676**	**$3,957,107**
Dividends from surplus							**(25,205)**
Net income (loss)							**284,460**
Change of scope of equity method							–
Net changes of items other than shareholders' equity	**64,176**	**(2,774)**	**73,813**	**(3,333)**	**131,872**	**523,480**	**655,352**
Total changes of items during period	**64,176**	**(2,774)**	**73,813**	**(3,333)**	**131,872**	**523,480**	**914,607**
Balance as of March 31, 2014	**$ 831,921**	**$ (549)**	**$ 50,647**	**$ (3,333)**	**$ 878,666**	**$ 731,166**	**$4,871,715**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash provided by (used in) operating activities:			
Income (loss) before income taxes and minority interests	**¥ 35,584**	¥ (6,439)	**$ 348,862**
Depreciation and amortization	**15,567**	16,294	**152,617**
Impairment loss	**7,983**	37,094	**78,264**
Loss on retirement of property, plant and equipment	**139**	656	**1,362**
Loss (gain) on valuation of short-term and long-term investment securities	**–**	1	**–**
Increase (decrease) in allowance for doubtful accounts	**25**	21	**245**
Increase (decrease) in provision for retirement benefits	**–**	(190)	**–**
Increase (decrease) in net defined benefit liability	**(585)**	–	**(5,735)**
Increase (decrease) in provision for directors' retirement benefits	**26**	56	**254**
Increase (decrease) in allowance for overseas investment loss	**(346)**	37	**(3,392)**
Interest and dividend income	**(4,708)**	(11,713)	**(46,156)**
Interest expenses	**839**	275	**8,225**
Loss (gain) on sales of short-term and long-term investment securities	**(693)**	(220)	**(6,794)**
Share of (profit) loss of entities accounted for using equity method	**(12,140)**	(753)	**(119,019)**
Gain on transfer of mining rights	**–**	(2,829)	**–**
Recovery of recoverable accounts	**13,749**	–	**134,794**
Decrease (increase) in notes and accounts receivable - trade	**(4,766)**	(4,744)	**(46,725)**
Decrease (increase) in inventories	**506**	(2,115)	**4,960**
Increase (decrease) in notes and accounts payable - trade	**364**	13,701	**3,568**
Increase (decrease) in accrued consumption taxes	**134**	351	**1,313**
Other, net	**(3,086)**	(104)	**(30,254)**
Subtotal	**48,595**	39,380	**476,421**
Income taxes (paid) refund	**(3,369)**	(5,125)	**(33,029)**
Net cash provided by (used in) operating activities	**45,226**	34,254	**443,392**
Cash provided by (used in) investing activities:			
Payments into time deposits	**(37,754)**	(18,124)	**(370,137)**
Proceeds from withdrawal of time deposits	**31,372**	15,784	**307,568**
Purchase of securities	**(200)**	(801)	**(1,960)**
Proceeds from sales and redemption of securities	**3,204**	3,300	**31,411**
Purchase of property, plant and equipment	**(121,283)**	(10,195)	**(1,189,049)**
Proceeds from sales of property, plant and equipment	**12**	49	**117**
Purchase of intangible assets	**(248)**	(3,852)	**(2,431)**
Proceeds from sales of intangible assets	**248**	–	**2,431**
Payments for asset retirement obligations	**(202)**	(72)	**(1,980)**
Purchase of investment securities	**(6,066)**	(5,623)	**(59,470)**
Proceeds from sales and redemption of investment securities	**1,430**	2,446	**14,019**
Payments for investments in capital	**(1,353)**	–	**(13,264)**
Payments of recoverable accounts	**(20,553)**	(12,061)	**(201,500)**
Payments of loans receivable	**(48)**	(4,061)	**(470)**
Collection of loans receivable	**4,768**	2,574	**46,745**
Interest and dividend income received	**13,702**	12,844	**134,333**
Proceeds from dividends of residual property	**–**	111	**–**
Proceeds from capital reduction of investments	**1,326**	40	**13,000**
Proceeds from transfer of mining rights	**–**	2,829	**–**
Other, net	**42**	(22)	**411**
Net cash provided by (used in) investing activities	**(131,600)**	(14,836)	**(1,290,196)**
Cash provided by (used in) financing activities:			
Increase in short-term loans payable	**206,318**	–	**2,022,725**
Decrease in short-term loans payable	**(178,149)**	–	**(1,746,558)**
Proceeds from long-term loans payable	**300**	1,875	**2,941**
Repayments of long-term loans payable	**(4,816)**	(11,141)	**(47,215)**
Cash dividends paid	**(2,571)**	(2,286)	**(25,205)**
Cash dividends paid to minority shareholders	**(377)**	(177)	**(3,696)**
Interest expenses paid	**(850)**	(308)	**(8,333)**
Repayments of lease obligations	**(556)**	(568)	**(5,450)**
Proceeds from share issuance to minority shareholders	**52,383**	5,428	**513,558**
Net cash provided by (used in) financing activities	**71,680**	(7,177)	**702,745**
Effect of exchange rate change on cash and cash equivalents	**4,884**	596	**47,882**
Net increase (decrease) in cash and cash equivalents	**(9,809)**	12,836	**(96,166)**
Cash and cash equivalents at beginning of period	**112,639**	99,803	**1,104,303**
Cash and cash equivalents at end of period (Note 19)	**¥ 102,830**	¥ 112,639	**$ 1,008,137**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Japan Petroleum Exploration Co., Ltd. (the "Company") and its Consolidated Subsidiaries (together, the "Group") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates.

As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto were translated from the presented Japanese yen amounts into U.S. dollar amounts at the rate of ¥102 = U.S. $1, the approximate rate of exchange at March 31, 2014, and were then rounded down to the nearest thousand. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollar do not necessarily agree with the sums of the individual amounts. This translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience of readers outside Japan. Such translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at that or any other rate.

2. Significant Accounting Policies

(1) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and associates

The consolidated financial statements as of and for the year ended March 31, 2014 include the accounts of the Company and its 25 (22 in 2013) significant subsidiaries.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for using the equity method.

For the year ended March 31, 2014, 14 (13 in 2013) associates are accounted for using the equity method.

Investments in the remaining unconsolidated subsidiaries and associates are stated at cost. If the equity method of accounting was applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The goodwill (including the difference between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries) is amortized by the straight-line method, in general, over a period of 5 years.

The difference between the cost and the underlying net equity at fair value of investments in entities accounted for using the equity method is amortized by the straight-line method over a period not exceeding 20 years, except for minor accounts that are charged to income in the period of acquisition.

The accounts of certain consolidated subsidiaries with a fiscal year-end of December 31 are consolidated on the basis of their fiscal year-end. The necessary adjustments have been made to the consolidated financial statements for any significant transactions that took place between the day following their balance sheet date and the consolidated balance sheet date.

Entities accounted for using the equity method whose fiscal year-ends are different than that of the Company are accounted for on the basis of the entities' respective fiscal year-end.

(2) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the consolidated balance sheet dates.

All revenues and expenses associated with foreign currencies are translated into yen at the exchange rates prevailing when such transactions were made. The resulting exchange gains or losses are credited or charged to income.

The revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the exchange rates in effect at their balance sheet dates, and, except for the components of net assets excluding minority interests, the balance sheet accounts are translated into yen at the exchange rates in effect at their balance sheet dates. The components of net assets excluding minority interests are translated into yen at their historical exchange rates.

Differences arising from the translation are presented as foreign currency translation adjustment and minority interests in the accompanying consolidated financial statements.

(3) Cash and cash equivalents
In preparing the consolidated statements of cash flows, the Company considers cash on hand, readily available deposits and highly liquid short-term investments with maturities of three months or less when purchased that are exposed to an insignificant risk of changes in value to be cash and cash equivalents.

(4) Securities and investment securities
In general, securities are classified into three categories: trading, held-to-maturity or available-for-sale securities. Available-for-sale securities with a determinable market value are stated at fair value based on market value at the balance sheet date, and unrealized gains and losses, net of applicable income taxes, are reported as a separate component of net assets. Cost of securities sold is computed based on the moving average method. Available-for-sale securities without a determinable market value are stated at the moving average cost.

(5) Inventories
Merchandise and finished goods are mainly stated at the lower of cost determined by the first-in, first-out method or market. Raw materials and supplies are mainly stated at the lower of cost determined by the moving average method, or net realizable value.

(6) Property, plant and equipment (excluding leased assets)
Property, plant and equipment (excluding leased assets) are depreciated mainly by the declining-balance method, except for buildings (excluding attached facilities) acquired on or after April 1, 1998 as well as the Sendai pipelines, the Shiroishi-Koriyama gas pipelines and assets of the Hokkaido Division Office of the Company which are depreciated by the straight-line method. Property, plant and equipment held by three domestic consolidated subsidiaries are depreciated by the straight-line method, and those of three foreign consolidated subsidiaries (two in 2013) are depreciated by the unit of production method.

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

Buildings and structures	2 to 60 years
Wells	3 years
Machinery, equipment and vehicles	2 to 22 years

(7) Intangible assets (excluding leased assets)
Intangible assets are amortized by the straight-line method.

Capitalized computer software costs are amortized by the straight-line method over a period of five years, and those of one foreign consolidated subsidiary (zero in 2013) are mainly amortized by the unit of production method.

(8) Deferred assets
Share issuance costs and development expenses are charged to income when incurred.

(9) Leased assets
For finance leases which do not transfer ownership of the leased assets to the lessee, leased assets are depreciated by the straight-line method over the lease terms with no residual value.

In addition, the Group accounts for finance leases that commenced on or before March 31, 2008 and do not transfer ownership of the leased property to the lessee as operating leases.

(10) Impairment on non-current assets
The Group reviews its non-current assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable.

An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss is measured as the amount by which the carrying amount of the asset or asset group exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(11) Provision for directors' retirement benefits
The provision for directors' retirement benefits is stated at the amount required according to the internal regulations at the end of the fiscal year.

(12) Allowance for doubtful accounts
The allowance for doubtful accounts is stated at the amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(13) Provision for directors' bonuses
The provision for directors' bonuses is stated at the estimated amount of payment at the end of the fiscal year.

(14) Allowance for overseas investment loss
The allowance for overseas investment loss is stated at the amount determined based on the investees' financial position and certain other factors for possible losses arising from investments in the exploration and development of overseas natural resources.

(15) Asset retirement obligations

Asset retirement obligations recognized by the Group are determined based on the estimated costs of decommissioning oil and natural gas wells and production facilities in accordance with laws, land lease contracts and others for wells and production facilities in Japan and overseas, and the appropriate discount rates.

(16) Retirement benefits

(a) Method of attributing expected benefit to periods

The retirement benefit obligations for employees are attributed to each period by the straight-line method over the estimated year of service of the eligible employees.

(b) Accounting treatment of actuarial gains and losses and prior service costs

Prior service costs are amortized as incurred by the straight-line method over a certain period (10 years), which is within the average remaining years of service of the employees.

Actuarial gains and losses are amortized in the year following the year in which the gains or losses are recognized by the straight-line method over a certain period (10 years), which is within the average remaining years of service of the employees.

(c) Application of simplified method for smaller enterprises

Certain consolidated subsidiaries apply the simplified method where the amount required for voluntary early retirement at the fiscal year end is treated as retirement benefit obligations for calculating net defined benefit liability and retirement benefit expenses.

(17) Hedge accounting

Deferral hedge accounting is adopted for hedge transactions. Foreign exchange forward contracts are accounted for by the allocation method if the foreign exchange forward contracts meet certain criteria to adopt the method.

The following summarizes hedging derivative instruments used by the Group and items hedged:

Hedging instruments: Foreign exchange forward contracts, crude oil price swaps, and crude oil collars

Hedged items: Accounts payable - trade, accounts payable - other, and crude oil sales

In addition, the nominal amount of the derivative transaction is limited to within the scope of actual demand, and the Group does not engage in speculative derivative transactions.

(18) Recognition of revenue and costs of construction contracts

The Group applies the percentage-of-completion method (the cost-comparison method is used to estimate the progress of the construction activity) for construction contracts, if the outcome of the construction activity is deemed certain at the end of the fiscal year. For contracts where the outcome of activity is uncertain, the completed-contract method is applied.

(19) Research and development expenses

Research and development expenses are charged to income when incurred.

(20) Income taxes

Income taxes are computed based on income before income taxes and minority interests in the consolidated statements of income.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts for income tax purposes. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which the temporary differences are expected to be settled or realized. The effect of deferred tax assets and liabilities due to change in tax rate is recognized in the statement of income for the period including the enacted date.

(21) Application of the Accounting Standard for Retirement Benefits and its Guidance

The Group has adopted the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, issued on May 17, 2012) (hereinafter: the "Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012) (hereinafter: the "Guidance") as of the end of fiscal year ended March 31, 2014, excluding certain provisions described in the main clauses of Section 35 of the Accounting Standard and the main clauses of Section 67 of the Guidance. Under the new accounting policy, the amount of retirement benefit obligations minus plan assets is recorded as net defined benefit liability. The unrecognized actuarial gains and losses, and unrecognized prior service costs are recognized in net defined benefit liability.

Concerning the application of the Accounting Standard and the guidance based on the provisional treatment set out in Section 37 of the Accounting Standard,the effects of the changes in accounting policies have been recognized in remeasurements of defined benefit plans through accumulated other comprehensive income as of March 31, 2014.

As a result, as of March 31, 2014, net defined benefit liability of ¥6,845 million ($67,107 thousand) was recognized, and accumulated other comprehensive income decreased by ¥340 million ($3,333 thousand).

Net assets per share decreased by ¥5.96 ($0.05).

(22) Accounting standards issued but not yet effective

- "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012)
- "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012)

(a) Overview

The Accounting Standard for Retirement Benefits and its Guidance were amended mainly for the accounting of unrecognized actuarial gains and losses and unrecognized prior service costs, the calculation methods of retirement benefit obligations and service costs, and enhancement of disclosures.

(b) Date of application

The Group will apply the amendments relating to the calculation methods of retirement benefit obligations and service costs from the beginning of year ending March 31, 2015. The Accounting Standard for Retirement Benefits and its Guidance will not be adopted retrospectively to the consolidated financial statements in prior periods as there are provisional treatment in the said accounting standard and guidance.

(c) Effect of application

At present, the Company is evaluating the effect that the amendments relating to the calculation methods of retirement benefit obligations and service costs will have on its consolidated financial statements.

(23) Changes in accounting estimates for asset retirement obligations

In the natural gas supply business, which is the Group's primary business operation, maintaining and ensuring the stable supply of natural gas is of high public interest; therefore, even after completion of production activities, the Group planned to continue to use some of the assets held for the purpose of producing and selling oil and gas on a permanent basis in order to fulfill the responsibilities as a supplier for users of natural gas by holistically integrating these assets. However, in the year ended March 31, 2014, it has become possible to determine the timing of decommissioning, etc. and reasonably estimate asset retirement obligations for certain assets that are not expected to be used as a result of examination of potential use thereof. Accordingly, the Group has changed the accounting estimates.

As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2014 decreased by ¥2,440 million ($23,921 thousand).

3. Inventories

The amount of book value reduced due to a decline in profitability which is included in cost of sales for the years ended March 31, 2014 and 2013 was ¥1,281 million ($12,558 thousand) and ¥1,050 million, respectively.

4. Securities and Investment Securities

Securities and investment securities held by the Group are all classified as available-for-sale securities.

(1) Information of available-for-sale securities as of March 31, 2014 and 2013 is as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2014	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥ 146,061**	**¥ 23,996**	**¥ 122,064**	**$ 1,431,970**	**$ 235,254**	**$ 1,196,705**
Debt securities:						
Government and municipal bonds	**305**	**273**	**31**	**2,990**	**2,676**	**303**
Corporate bonds	**1,907**	**1,887**	**19**	**18,696**	**18,500**	**186**
Other debt securities	**702**	**701**	**1**	**6,882**	**6,872**	**9**
Other	**1,534**	**1,528**	**6**	**15,039**	**14,980**	**58**
Subtotal	**150,511**	**28,387**	**122,123**	**1,475,598**	**278,303**	**1,197,284**
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**40**	**40**	–	**392**	**392**	**–**
Debt securities:						
Government and municipal bonds	**225**	**235**	**(9)**	**2,205**	**2,303**	**(88)**
Corporate bonds	**10,960**	**10,966**	**(5)**	**107,450**	**107,509**	**(49)**
Other debt securities	**649**	**649**	**(0)**	**6,362**	**6,362**	**(0)**
Other	**29,980**	**29,980**	**–**	**293,921**	**293,921**	**–**
Subtotal	**41,856**	**41,872**	**(16)**	**410,352**	**410,509**	**(156)**
Total	**¥ 192,367**	**¥ 70,260**	**¥ 122,107**	**$ 1,885,950**	**$ 688,823**	**$ 1,197,127**

March 31, 2013	Carrying value	Acquisition cost	Millions of yen Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 134,638	¥ 22,037	¥ 112,601
Debt securities:			
Government and municipal bonds	510	476	33
Corporate bonds	2,103	2,097	5
Other debt securities	1,325	1,303	22
Other	1,535	1,531	3
Subtotal	140,113	27,446	112,666
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	198	200	(1)
Debt securities:			
Government and municipal bonds	518	548	(30)
Corporate bonds	15,484	15,498	(13)
Other debt securities	49	50	(0)
Other	36,229	36,230	(1)
Subtotal	52,481	52,527	(46)
Total	¥ 192,595	¥ 79,974	¥ 112,620

Unlisted equity securities, carrying values of which as of March 31, 2014 and 2013 were ¥4,221 million ($41,382 thousand) and ¥4,225 million, respectively, are not included in the above tables as no market prices were available and it was extremely difficult to determine the fair value.

(2) Information on sales of securities classified as available-for-sale for the years ended March 31, 2014 and 2013 is as follows:

March 31, 2014			Millions of yen			Thousands of U.S. dollars
	Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss
Available-for-sale securities:						
Equity securities	**¥ 1,087**	**¥ 670**	**¥ –**	**$ 10,656**	**$ 6,568**	**$ –**
Debt securities:						
Government and municipal bonds	**112**	**11**	**–**	**1,098**	**107**	**–**
Corporate bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other debt securities	**209**	**11**	**–**	**2,049**	**107**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Total	**¥ 1,408**	**¥ 693**	**¥ –**	**$ 13,803**	**$ 6,794**	**$ –**

March 31, 2013	Sales amount	Aggregate gain	Millions of yen Aggregate loss
Available-for-sale securities:			
Equity securities	¥ 665	¥ 341	¥ 186
Debt securities:			
Government and municipal bonds	–	–	–
Corporate bonds	98	0	–
Other debt securities	–	–	–
Other	474	69	0
Total	¥ 1,239	¥ 411	¥ 186

(3) During the years ended March 31, 2014 and 2013, the Group recorded losses on valuation of available-for-sale securities in the amounts of ¥7 million ($68 thousand) and ¥16 million, respectively. For unlisted equity securities whose fair value is extremely difficult to determine, amounting to ¥7 million ($68 thousand) and ¥14 million as of March 31, 2014 and 2013, allowance for overseas investment loss was recorded, and there is no impact on the accompanying consolidated financial statements. In addition, if the market value of the security declines by 50% or more from its acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

(4) Investments in unconsolidated subsidiaries and associates at March 31, 2014 and 2013 were ¥36,614 million ($358,960 thousand) and ¥33,898 million, respectively.

(5) As of March 31, 2014, investment securities of ¥76 million ($745 thousand) were pledged as collateral for loans payable of subsidiaries and associates.

5. Long-term Loans Payable and Lease Obligations

Long-term loans payable at March 31, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Loans from banks and others, at interest rates ranging from 0.20% to 1.83%:			
Unsecured	**¥ 26,519**	¥ 28,761	**$ 259,990**
	26,519	28,761	**259,990**
Less — current portion	**(4,883)**	(4,563)	**(47,872)**
	¥ 21,636	¥ 24,197	**$ 212,117**

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2014 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	**¥ 4,881**	**$ 47,852**
2016	**4,105**	**40,245**
2017	**4,116**	**40,352**
2018	**4,416**	**43,294**
2019 and thereafter	**4,116**	**40,352**
Total	**¥ 21,636**	**$ 212,117**

The Company and certain consolidated subsidiaries have entered into overdraft agreements and loan commitment agreements amounting to ¥17,293 million ($169,539 thousand) and ¥27,130 million with six banks at March 31, 2014 and 2013, respectively. There were no borrowings outstanding under the overdraft agreements and loan commitment agreements as of March 31, 2014 and 2013.

Lease obligations included in other in non-current liabilities at March 31, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease obligations	**¥ 4,292**	¥ 4,715	**$ 42,078**
Less — current portion	**(528)**	(532)	**(5,176)**
	¥ 3,763	¥ 4,183	**$ 36,892**

The aggregate annual maturities of lease obligations subsequent to March 31, 2014 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	**¥ 499**	**$ 4,892**
2016	**467**	**4,578**
2017	**434**	**4,254**
2018	**407**	**3,990**
2019 and thereafter	**1,955**	**19,166**
Total	**¥ 3,763**	**$ 36,892**

6. Income Taxes

Income taxes imposed on the Company and its domestic consolidated subsidiaries comprise corporation, inhabitants and enterprise taxes. The statutory tax rate applicable to the Company was approximately 33.3% for the years ended March 31, 2014 and 2013, respectively. Income taxes of four foreign consolidated subsidiaries (three foreign consolidated subsidiaries in 2013) are based principally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2014 and 2013 differ from the statutory tax rates for the following reasons:

	2014	2013
Statutory tax rates	**33.3%**	33.3%
Effect of:		
Unrecognized tax effect accounting on net tax loss carried forward of consolidated subsidiaries	**1.3**	(20.3)
Exploration expenses deducted for income tax purposes	**(8.4)**	47.2
Dividends income not taxable for income tax purposes	**(1.2)**	14.8
Utilization of tax loss carried forward	**0.1**	0.3
Expenses not deductible for income tax purposes	**0.4**	(1.8)
Consolidation adjustment for equity method	**(7.8)**	3.9
Change in valuation allowance	**(5.1)**	23.9
Loss on valuation of subsidiaries' shares	**–**	(13.7)
Gain on non-taxable donation	**(0.1)**	17.4
Foreign tax credits	**(0.2)**	4.3
Remeasurement of deferred tax assets and deferred tax liabilities at end of period due to the change in tax rate	**0.6**	–
Other, net	**2.7**	(1.7)
Effective tax rates	**15.6%**	107.6%

The significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Allowance for overseas investment loss	**¥ 1,934**	¥ 2,053	**$ 18,960**
Net tax loss carried forward	**7,410**	5,482	**72,647**
Provision for retirement benefits	**–**	2,243	**–**
Net defined benefit liability	**2,150**	–	**21,078**
Depreciation	**12,091**	13,618	**118,539**
Provision for directors' retirement benefits	**284**	281	**2,784**
Asset retirement obligations	**3,746**	2,480	**36,725**
Impairment loss on non-current assets	**1,044**	1,031	**10,235**
Other	**10,617**	10,459	**104,088**
Subtotal	**39,279**	37,651	**385,088**
Valuation allowance	**(14,237)**	(14,909)	**(139,578)**
Total deferred tax assets	**25,042**	22,741	**245,509**
Deferred tax liabilities:			
Reserve for exploration	**(9,839)**	(10,269)	**(96,460)**
Valuation difference on available-for-sale securities	**(37,250)**	(34,313)	**(365,196)**
Reserve for advanced depreciation of non-current assets	**(97)**	(107)	**(950)**
Other	**(3,803)**	(3,202)	**(37,284)**
Total deferred tax liabilities	**(50,991)**	(47,892)	**(499,911)**
Net deferred tax liabilities	**¥ (25,948)**	¥ (25,150)	**$ (254,392)**

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 10 of 2014) was promulgated on March 31, 2014, and the special corporation tax for reconstruction is not being imposed from fiscal years beginning on or after April 1, 2014. Consequently, the effective statutory tax rate used to calculate deferred tax assets and liabilities was changed from 33.3% to 30.8% for the temporary differences expected to be realized or settled in the year beginning April 1, 2014.

As a result of this change, deferred tax assets in current assets (after deducting deferred tax liabilities) decreased by ¥89 million ($872 thousand), and deferred tax liabilities in non-current liabilities (after deducting deferred tax assets) increased by ¥97 million ($950 thousand). In addition, income taxes - deferred for the year ended March 31, 2014 increased by ¥186 million ($1,823 thousand), and valuation difference on available-for-sale securities and deferred gains or losses on hedges decreased by ¥0 million ($0 thousand) and ¥0 million ($0 thousand), respectively.

7. Retirement Benefit Plans

For the year ended March 31, 2014

(1) Overview of retirement benefit plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., defined benefit corporate pension plans and lump-sum payment plans. The plans cover substantially all employees, and the amounts to be paid are determined by their respective basic rates of pay at retirement, length of service, and termination reasons. Certain domestic consolidated subsidiaries participate in the Smaller Enterprise Retirement Allowance Mutual Aid System and calculate defined benefit liability and retirement benefit expenses using the simplified method.

(2) Defined benefit plans

(a) The reconciliation between retirement benefit obligations at the beginning of the period and the end of the period (excluding plans applying the simplified method) is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Retirement benefit obligations at beginning of period	**¥ 18,569**	**$ 182,049**
Service costs	**867**	**8,500**
Interest costs	**215**	**2,107**
Actuarial gains and losses arising during period	**(448)**	**(4,392)**
Retirement benefits paid	**(978)**	**(9,588)**
Retirement benefit obligations at end of period	**¥ 18,226**	**$ 178,686**

(b) The reconciliation between plan assets at the beginning of period and the end of period (excluding plans applying simplified method) is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Plan assets at beginning of period	**¥ 10,748**	**$ 105,372**
Expected return on plan assets	**107**	**1,049**
Actuarial gains and losses arising during period	**661**	**6,480**
Contribution from employer	**1,435**	**14,068**
Retirement benefits paid	**(620)**	**(6,078)**
Plan assets at end of period	**¥ 12,332**	**$ 120,901**

(c) The reconciliation between defined benefit liabilities of plans applying the simplified method at the beginning of period and the end of period is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Defined benefit liability at beginning of period	¥ 903	$ 8,852
Retirement benefit expenses	189	1,852
Retirement benefits paid	(72)	(705)
Contribution to plans	(69)	(676)
Defined benefit liability at end of period	¥ 951	$ 9,323

(d) The reconciliation between retirement benefit obligations and plan assets at the end of period and defined benefit liability and defined benefit asset on the consolidated balance sheet is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligations	¥ 15,605	$ 152,990
Plan assets	(12,332)	(120,901)
	3,272	32,078
Unfunded retirement benefit obligations	3,572	35,019
Net defined benefit liability (asset) on consolidated balance sheet	6,845	67,107
Defined benefit liability	6,845	67,107
Net defined benefit liability (asset) on consolidated balance sheet	¥ 6,845	$ 67,107

Note: Plans applying the simplified method are included.

(e) The breakdown of retirement benefit expenses is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service costs	¥ 867	$ 8,500
Interest costs	215	2,107
Expected return on plan assets	(107)	(1,049)
Amortization of actuarial gains and losses	229	2,245
Amortization of prior service costs	(45)	(441)
Retirement benefit expenses calculated by simplified method	189	1,852
Retirement benefit expenses on defined benefit plans	¥ 1,349	$ 13,225

(f) Remeasurements of defined benefit plans

The breakdown of items recorded in remeasurements of defined benefit plans, before tax, is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service costs	¥ 586	$ 5,745
Unrecognized actuarial gains and losses	(1,078)	(10,568)
Total	¥ (491)	$ (4,813)

(g) Plan assets

(i) Breakdown of plan assets

The percentage of various assets to total plan assets by main category is as follows:

	2014
Debt securities	50%
Equity securities	38%
Cash and deposits	2%
Other	10%
Total	100%

(ii) Determination of long-term expected rate of return

In order to determine the long-term expected rate of return on plan assets, the Group considers the current and expected allocation of plan assets and the current and expected long-term rate of return from various assets constituting plan assets.

(h) Actuarial assumptions

The main actuarial assumptions for the year ended March 31, 2014 (weighted averages) is as follows:

	2014
Discount rate	1.2%
Long-term expected rate of return	1.0%

For the year ended March 31, 2013

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., defined benefit corporate pension plans and lump-sum payment plans. The plans cover substantially all employees, and the amounts to be paid are determined by their respective basic rates of pay at retirement, length of service, and termination reasons. Certain domestic consolidated subsidiaries participate in the Smaller Enterprise Retirement Allowance Mutual Aid System.

The following table sets forth the funded and accrued status of the plans of the Company's and its consolidated subsidiaries' defined benefit plans, and the amount of provision for retirement benefits in the consolidated balance sheet, as of March 31, 2013:

	Millions of yen
	2013
Retirement benefit obligation	¥ (19,473)
Plan assets at fair value	10,748
Unfunded retirement benefit obligation	(8,724)
Unrecognized actuarial gains or losses	2,418
Unrecognized prior service costs	(632)
Provision for retirement benefits	¥ (6,938)

Note: Consolidated subsidiaries apply the simplified method in calculating their retirement benefit obligation.

The components of retirement benefit expenses for the year ended March 31, 2013 are outlined as follows:

	Millions of yen
	2013
Service cost	¥ 877
Interest cost	319
Expected return on plan assets	(89)
Amortization of actuarial gains or losses	330
Amortization of prior service costs	(45)
Other	61
Total	¥ 1,452

Notes: 1. Retirement benefit expenses of consolidated subsidiaries which apply the simplified method are included in "Service cost."
2. "Other" indicates premiums paid to the Smaller Enterprise Retirement Allowance Mutual Aid System.

The assumptions used in calculating the retirement benefit obligation as of March 31, 2013 are as follows:

	2013
Discount rate	1.2%
Expected rate of return on plan assets	1.0%

Note: A discount rate of 2.0% was used at the beginning of the year ended March 31, 2013. However, as a result of a reconsideration of the discount rate at March 31, 2013, the Group determined that a change in the discount rate affects the amount of retirement benefit obligation and changed it to 1.2%.

8. Shareholders' Equity

The Companies Act of Japan provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus (other than capital reserve) and retained earnings (other than legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the total of capital reserve and the legal reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders' meeting or the Board of Directors if certain conditions are met.

9. Leases

(1) Finance leases

As discussed in Note 2. Significant Accounting Policies, (9) Leased assets, the Group accounts for finance leases that commenced on or before March 31, 2008 and do not transfer ownership of the leased property to the lessee as operating leases.

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2014 and 2013, which would be reflected in the consolidated balance sheets if finance lease accounting was applied to the finance leases currently accounted for as operating leases:

(Lessee)

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Acquisition cost:			
Machinery, equipment and vehicles	**¥ 910**	¥ 1,034	**$ 8,921**
Total	**¥ 910**	¥ 1,034	**$ 8,921**
Accumulated depreciation:			
Machinery, equipment and vehicles	**¥ 761**	¥ 791	**$ 7,460**
Total	**¥ 761**	¥ 791	**$ 7,460**
Net book value:			
Machinery, equipment and vehicles	**¥ 149**	¥ 243	**$ 1,460**
Total	**¥ 149**	¥ 243	**$ 1,460**

Lease payments relating to the finance leases accounted for as operating leases for the years ended March 31, 2014 and 2013 amounted to ¥94 million ($921 thousand) and ¥111 million, respectively, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms with no residual value.

Future minimum lease payments (including the amounts equivalent to interest expenses) subsequent to March 31, 2014 for the finance leases accounted for as operating leases are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 89	$ 872
2016 and thereafter	59	578
Total	¥ 149	$ 1,460

(Lessor)

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Acquisition cost:			
Buildings and structures	**¥ 54**	¥ 54	**$ 529**
Machinery, equipment and vehicles	**197**	200	**1,931**
Other (property, plant and equipment)	**50**	50	**490**
Total	**¥ 302**	¥ 305	**$ 2,960**
Accumulated depreciation:			
Buildings and structures	**¥ 16**	¥ 13	**$ 156**
Machinery, equipment and vehicles	**136**	122	**1,333**
Other (property, plant and equipment)	**38**	35	**372**
Total	**¥ 191**	¥ 171	**$ 1,872**
Net book value:			
Buildings and structures	**¥ 38**	¥ 40	**$ 372**
Machinery, equipment and vehicles	**61**	77	**598**
Other (property, plant and equipment)	**11**	15	**107**
Total	**¥ 111**	¥ 133	**$ 1,088**

For the years ended March 31, 2014 and 2013, the lease revenue relating to the finance leases accounted for as operating leases amounted to ¥29 million ($284 thousand) and ¥40 million, respectively. The depreciation expense of the leased assets computed by the straight-line method over the lease terms amounted to ¥22 million ($215 thousand) and ¥28 million, respectively.

Future minimum lease receivables (including the amounts equivalent to interest income) subsequent to March 31, 2014 for the finance leases accounted for as operating leases are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 19	$ 186
2016 and thereafter	194	1,901
Total	¥ 214	$ 2,098

(2) Operating leases

Future minimum lease payments under non-cancelable operating leases subsequent to March 31, 2014 are as follows:

(Lessee)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 470	$ 4,607
2016 and thereafter	1,621	15,892
Total	¥ 2,092	$ 20,509

10. Financial Instruments

(1) Overview

(a) Policy for measures relating to financial instruments

The Group's policy is to obtain operating funds ensuring funding liquidity and controlling risks. The Group raises necessary funds through funds on hand and bank loans. Domestic capital investment is financed by Development Bank of Japan Inc. and other commercial banks, and overseas business investment is financed by Japan Bank for International Cooperation and other commercial banks. The Group does not enter into derivative transactions for trading or speculative purposes but uses them to hedge the undermentioned risks.

(b) Descriptions of financial instruments and related risk and risk management

Operating receivables such as notes and accounts receivable - trade are exposed to credit risk. The Group works to prevent bad debts by monitoring credit conditions and others of customers on a timely basis in accordance with internal credit management rules.

Short-term loans receivable mainly consist of repo transactions of bonds with financial institutions to manage the short-term fund and are exposed to credit risk. The Group mitigates the risk by dealing with creditworthy financial institutions and by purchasing bonds that carry little risk such as government bonds.

Securities and investment securities mainly consist of equity securities of partner companies, and for those exposed to market fluctuation risk, fair value evaluation is reported to the directors on a regular basis in accordance with the internal regulations. Investment securities mainly consist of equity securities of INPEX CORPORATION recorded at ¥143,129 million ($1,403,225 thousand) and ¥133,616 million as of March 31, 2014 and 2013, the proportions of which to investment securities are 75.0% and 75.4%, respectively.

Long-term loans receivable are mainly loans to our associates for their operating capital and are exposed to credit risk and foreign currency risk. The Group manages the credit risk appropriately by monitoring the collection status of the loans receivable. The Group reduces the foreign currency risk by being financed for the loans receivable by bank loans denominated in the same foreign currency.

Operating payables such as notes and accounts payable - trade are due within one year. Accounts payable - trade relating to LNG are exposed to foreign currency risk, and the risk is hedged mainly by foreign exchange forward contracts.

Loans payable are mainly for domestic capital investment and overseas business investment. Floating interest rate loans are exposed to interest rate and foreign currency fluctuation risks, and the Group reduces the risks by utilizing interest rate and currency swaps and by providing the funds from the loans to our associates as loans with the corresponding floating rate and in the same currency.

In addition, foreign currencies to provide for overseas business investment are exposed to foreign currency risk. The Group reduces such risk by utilizing foreign exchange forward contracts.

The Group utilizes foreign exchange forward contracts and interest rate and currency swaps as mentioned above as well as crude oil price swaps and crude oil collars in order to hedge oil price fluctuation risk associated with crude oil sales. Implementation and management of derivative transactions are based on the internal regulations which prescribe the authorization and maximum upper limit of the transactions, and the department responsible for derivative transactions executes transactions after obtaining approval from the person responsible for authorization. The Group enters into transactions only with creditworthy financial institutions to reduce the counterparty risk.

Liquidity risk associated with financing is managed mainly by preparing monthly financial plans.

(c) Supplemental information on fair value of financial instruments

As well as the values based on market prices, fair values of financial instruments include values which are reasonably calculated when market prices do not exist. As the calculation of those values includes variable factors, those values may vary if different assumptions are applied.

Also, for the contract amount and others regarding derivative transactions described in Note 11. Derivative Transactions, the contract amount itself does not indicate market risk related to derivative transactions.

(2) Fair value of financial instruments

Carrying value in the consolidated balance sheets, fair value and these difference as of March 31, 2014 and 2013 are as follows. The financial instruments whose fair value is extremely difficult to determine are not included below.

			Millions of yen
March 31, 2014	Carrying value	Fair value	Difference
Cash and deposits	**¥ 81,031**	**¥ 81,154**	**¥ 122**
Notes and accounts receivable - trade	**37,222**		
Allowance for doubtful accounts (*1)	**(12)**		
	37,210	**37,210**	**–**
Short-term loans receivable	**13,831**	**13,831**	**–**
Securities and investment securities	**205,988**	**216,994**	**11,005**
Long-term loans receivable	**29,100**	**29,100**	**–**
Total assets	**¥ 367,162**	**¥ 378,290**	**¥ 11,128**
Notes and accounts payable - trade	**¥ 23,610**	**¥ 23,610**	**¥ (0)**
Short-term loans payable	**28,169**	**28,169**	**–**
Long-term loans payable	**21,636**	**21,677**	**(40)**
Total liabilities	**¥ 73,416**	**¥ 73,457**	**¥ (40)**
Derivative transactions (*2)	**¥ 62**	**¥ 62**	**¥ –**

			Millions of yen
March 31, 2013	Carrying value	Fair value	Difference
Cash and deposits	¥ 53,870	¥ 54,008	¥ 137
Notes and accounts receivable - trade	32,337	32,337	–
Short-term loans receivable	31,418	31,418	–
Securities and investment securities	204,952	222,494	17,541
Long-term loans receivable	30,331		
Allowance for doubtful accounts (*3)	(0)		
	30,330	30,330	–
Total assets	¥ 352,910	¥ 370,589	¥ 17,679
Notes and accounts payable - trade	¥ 18,947	¥ 18,947	¥ (0)
Long-term loans payable	24,197	24,278	(80)
Total liabilities	¥ 43,144	¥ 43,225	¥ (80)
Derivative transactions (*2)	¥ 584	¥ 584	¥ –

	Thousands of U.S. dollars		
March 31, 2014	Carrying value	Fair value	Difference
Cash and deposits	**$ 794,421**	**$ 795,627**	**$ 1,196**
Notes and accounts receivable - trade	**364,921**		
Allowance for doubtful accounts (*1)	**(117)**		
	364,803	**364,803**	**–**
Short-term loans receivable	**135,598**	**135,598**	**–**
Securities and investment securities	**2,019,490**	**2,127,392**	**107,892**
Long-term loans receivable	**285,294**	**285,294**	**–**
Total assets	**$ 3,599,627**	**$ 3,708,725**	**$ 109,098**
Notes and accounts payable - trade	**$ 231,470**	**$ 231,470**	**$ (0)**
Short-term loans payable	**276,166**	**276,166**	**–**
Long-term loans payable	**212,117**	**212,519**	**(392)**
Total liabilities	**$ 719,764**	**$ 720,166**	**$ (392)**
Derivative transactions (*2)	**$ 607**	**$ 607**	**$ –**

(*1) Allowance for doubtful accounts recognized for notes and accounts receivable - trade on an individual basis is deducted from the carrying value.
(*2) Net assets and liabilities arising from derivative transactions are presented on a net basis, and the liability position is shown in parenthesis.
(*3) Allowance for doubtful accounts recognized for long-term loans receivable on an individual basis is deducted from the carrying value.

Note 1. Calculation method for fair value of financial instruments and information on securities and derivative transactions

Assets

・ **Cash and deposits**
As for deposits without maturities, the fair value is based on the carrying value since the fair value is considered to be the equivalent of the carrying value. As for deposits with maturities, the present value is calculated by discounting future cash flows for each segment based on the term, using a deposit interest rate which is assumed to be applied to a new deposit.

・ **Notes and accounts receivable - trade**
The carrying value is deemed as the fair value since these are scheduled to be settled in a short period of time.

・ **Short-term loans receivable**
The carrying value is deemed as the fair value since these are scheduled to be settled in a short period of time.

・ **Securities and investment securities**
The fair value of equity securities is based on the price on stock exchanges, and that of debt securities is based on the price on bond markets or provided by counterparty financial institutions. The fair value of investment trusts is based on the constant value or price provided by counterparty financial institutions. Please refer to Note 4. Securities and Investment Securities, for matters relating to securities by holding purpose.

・ **Long-term loans receivable**
The carrying value is deemed as the fair value for long-term loans receivable with floating interest rates since these loans reflect the market interest rates in a short period of time and the carrying value approximates the fair value unless the credit condition has changed dramatically since the loans were executed. For the receivables deemed to be uncollectible, since the estimated bad debt balance is calculated based on the present value of the estimated future cash flows and the carrying value as of the consolidated balance sheet date after deduction of the estimated bad debt balance approximates the fair value, the carrying value as of the consolidated balance sheet date minus the estimated bad debt balance is deemed as the fair value.

Liabilities

・ **Notes and accounts payable - trade**

Among accounts payable - trade, the accounts payable - trade hedged by foreign exchange forward contracts that meet certain criteria for the allocation method are combined with the foreign exchange forward contracts to determine the fair value. For the others, the carrying value is deemed as the fair value since they are scheduled to be settled in a short period of time.

・ **Short-term loans payable**

The carrying value is deemed as the fair value since these are scheduled to be settled in a short period of time.

・ **Long-term loans payable**

With regard to floating rate loans, the carrying value is deemed as the fair value since these loans reflect the market interest rates in a short period of time and the credit condition of the Group has not changed dramatically since the loans were executed. For fixed rate loans, the present value is calculated by discounting the total amount of principal and interest for each segment based on the term, using a loan interest rate which is assumed to be applied to a similar loan.

Derivative transactions

Please refer to Note 11. Derivative Transactions.

Note 2. Financial instruments whose fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Carrying value:			
Unlisted equity securities	**¥ 25,980**	¥ 25,766	**$ 254,705**

The above securities are not included in securities and investment securities in the table above, as there were no market prices available and it is extremely difficult to determine the fair value.

(3) Redemption schedule for monetary claims and securities with maturities

				Millions of yen
March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**¥ 81,029**	**¥ –**	**¥ –**	**¥ –**
Notes and accounts receivable - trade (*1)	**37,210**	–	–	–
Short-term loans receivable	**13,831**	–	–	–
Securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	–	–	**500**	–
Debt securities:				
Government and municipal bonds	**255**	**205**	–	–
Corporate bonds	**10,300**	**2,465**	**210**	–
Other debt securities	**650**	**700**	–	–
Other	–	**26**	–	–
Long-term loans receivable	–	**19,415**	**9,685**	–
Total	**¥ 143,277**	**¥ 22,812**	**¥ 10,395**	**¥ –**

March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
				Millions of yen
Cash and deposits	¥ 53,869	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	32,337	–	–	–
Short-term loans receivable	31,418	–	–	–
Securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	–	–	500	–
Debt securities:				
Government and municipal bonds	382	524	–	–
Corporate bonds	16,100	1,500	–	–
Other debt securities	700	550	100	–
Other	–	31	–	–
Long-term loans receivable (*2)	–	21,916	8,413	–
Total	¥ 134,807	¥ 24,522	¥ 9,013	¥ –

March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
				Thousands of U.S. dollars
Cash and deposits	**$ 794,401**	**$ –**	**$ –**	**$ –**
Notes and accounts receivable - trade (*1)	**364,803**	–	–	–
Short-term loans receivable	**135,598**	–	–	–
Securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	–	–	**4,901**	–
Debt securities:				
Government and municipal bonds	**2,500**	**2,009**	–	–
Corporate bonds	**100,980**	**24,166**	**2,058**	–
Other debt securities	**6,372**	**6,862**	–	–
Other	–	**254**	–	–
Long-term loans receivable	–	**190,343**	**94,950**	–
Total	**$ 1,404,676**	**$ 223,647**	**$ 101,911**	**$ –**

(*1) The amount does not include receivables deemed to be uncollectible of ¥12 million ($117 thousand).
(*2) The amount does not include receivables deemed to be uncollectible of ¥1 million.

(4) Scheduled maturities of long-term loans payable

March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
				Millions of yen
Long-term loans payable	¥ –	¥ 17,519	¥ 4,116	¥ –
Total	¥ –	¥ 17,519	¥ 4,116	¥ –

March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
				Thousands of U.S. dollars
Long-term loans payable	$ –	$ 171,754	$ 40,352	$ –
Total	$ –	$ 171,754	$ 40,352	$ –

11. Derivative Transactions

The Group utilizes derivative transactions for the purpose of hedging its risks to adverse fluctuations in interest rates, foreign currency exchange rates and oil prices, but does not enter into such transactions for trading or speculative purposes.

The Group is exposed to credit risk in the event of nonperformance by the counterparties to the derivative transactions, but any such risk would not be material because the Group enters into transactions only with creditworthy financial institutions.

(1) Derivative transactions for which hedge accounting is not applied

	Millions of yen				Thousands of U.S. dollars			
March 31, 2014	Contract amount and others	Due after one year	Fair value (*)	Unrealized gain (loss)	Contract amount and others	Due after one year	Fair value (*)	Unrealized gain (loss)
Currency and interest rate related:								
Foreign currency and interest rate swaps								
Receive Japanese yen fixed/Pay U.S. dollar floating	¥ 1,200	¥ 800	¥ 143	¥ 143	$ 11,764	$ 7,843	$ 1,401	$ 1,401
Total	¥ 1,200	¥ 800	¥ 143	¥ 143	$ 11,764	$ 7,843	$ 1,401	$ 1,401

	Millions of yen			
March 31, 2013	Contract amount and others	Due after one year	Fair value (*)	Unrealized gain (loss)
Currency and interest rate related:				
Foreign currency and interest rate swaps				
Receive Japanese yen fixed/Pay U.S. dollar floating	¥ 1,600	¥ 1,200	¥ 332	¥ 332
Total	¥ 1,600	¥ 1,200	¥ 332	¥ 332

(*) Fair value is measured based on quotes and others provided by financial institutions and others.

(2) Derivative transactions for which hedge accounting is applied

March 31, 2014	Millions of yen			Thousands of U.S. dollars		
	Contract amount and others	Due after one year	Fair value (*1)	Contract amount and others	Due after one year	Fair value (*1)
Currency related:						
Deferral hedge accounting						
Foreign exchange forward contracts						
U.S. dollars (Buying)	**¥ 54**	**¥ –**	**¥ (1)**	**$ 529**	**$ –**	**$ (9)**
British pound (Buying)	**36**	**–**	**0**	**352**	**–**	**0**
Allocation method						
Foreign exchange forward contracts						
U.S. dollars (Buying)	**4,098**	**–**	**(*2)**	**40,176**	**–**	**(*2)**
British pound (Buying)	**42**	**–**	**(0)**	**411**	**–**	**(0)**
Total	**¥ 4,231**	**¥ –**	**¥ (1)**	**$ 41,480**	**$ –**	**$ (9)**

March 31, 2013	Millions of yen		
	Contract amount and others	Due after one year	Fair value (*1)
Currency related:			
Deferral hedge accounting			
Foreign exchange forward contracts			
U.S. dollars (Buying)	¥ 6	¥ –	¥ (0)
Allocation method			
Foreign exchange forward contracts			
U.S. dollars (Buying)	9	–	(0)
U.S. dollars (Buying)	3,528	–	(*2)
Total	¥ 3,543	¥ –	¥ (0)

(*1) Fair value is measured based on quotes and others provided by financial institutions and others.

(*2) Foreign exchange forward contracts to which allocation method is applied are accounted for with the hedged item, accounts payable - trade. Thus, the fair value of the foreign exchange forward contracts is included in the fair value of the accounts payable - trade.

March 31, 2014	Millions of yen Contract amount and others	Due after one year	Fair value (*)	Thousands of U.S. dollars Contract amount and others	Due after one year	Fair value (*)
Commodity related:						
Deferral hedge accounting						
Crude oil price swaps						
Receive fixed/ Pay floating	¥ 842	¥ –	¥ (79)	$ 8,254	$ –	$ (774)
Total	¥ 842	¥ –	¥ (79)	$ 8,254	$ –	$ (774)

(*) Fair value is measured based on quotes and other data provided by financial institutions and others.

March 31, 2013	Millions of yen Contract amount and others	Due after one year	Fair value (*)
Commodity related:			
Deferral hedge accounting			
Crude oil price swaps			
Receive fixed/ Pay floating	¥ 1,687	¥ –	¥ 228
Total	¥ 1,687	¥ –	¥ 228

March 31, 2013	Millions of yen Contract volume (Kiloliters)	Due after one year (Kiloliters)	Fair value (*)
Commodity related:			
Deferral hedge accounting			
Crude oil collars			
Buying puts/ Selling calls	9,357	–	¥ 23
Total	9,357	–	¥ 23

(*) Fair value is a reasonably calculated value based on reasonable estimations by the Group.

12. Asset Retirement Obligations

(1) Asset retirement obligations recognized in the consolidated balance sheets

Asset retirement obligations recognized by the Group are determined based on the estimated costs of decommissioning oil and natural gas wells and production facilities in accordance with laws, land lease contracts and others for wells and production facilities in Japan and overseas, and the appropriate discount rates.

The Group estimates the periods in which the obligations are paid out to be approximately 2 to 35 years (2 to 55 years in 2013) from acquisition of assets. This estimate is reasonably made based on the plans for decommissioning wells and facilities or the producing lives of fields that the Group reasonably estimates by field if no such plan exists. Discount rates applied are 0.15 to 2.287% (0.176 to 2.335% in 2013) for domestic obligations and mainly 7% for overseas (mainly Canada).

Although the future costs to be incurred upon decommissioning and timing when the obligations are incurred are based on the Group's best estimate, uncertainty exists regarding both the amount and timing of incurring these costs.

Changes in the balance of asset retirement obligations for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Balance at beginning of period	**¥ 11,007**	¥ 9,832	**$ 107,911**
Increase due to acquisition of new assets	**1,514**	173	**14,843**
Accretion	**406**	303	**3,980**
Settlement	**(227)**	(153)	**(2,225)**
Foreign currency translation adjustment	**412**	282	**4,039**
Increase due to changes in accounting estimates	**3,107**	–	**30,460**
Other changes, net	**–**	568	**–**
Balance at end of period	**¥ 16,221**	¥ 11,007	**$ 159,029**

(2) Asset retirement obligations other than those recognized in the consolidated balance sheets

The Group has obligations to restore sites to their original condition in accordance with laws, land lease contracts and others regarding oil and natural gas production facilities. However, in the natural gas supply business, which is the Group's primary business operation, maintaining and ensuring the stable supply of natural gas is of high public interest; therefore, even after completion of production activities, the Group plans to continue to use some of the assets held for the purpose of producing and selling oil and gas on a permanent basis in order to fulfill the responsibilities as a supplier for users of natural gas by holistically integrating these assets. Thus, the Group does not recognize the relevant asset retirement obligations since it is impossible to determine the timing of decommissioning and estimate asset retirement obligations on a reasonable basis as of March 31, 2014 and 2013.

The following table summarizes the details of balance of asset retirement obligations for the year ended March 31, 2014.

				Millions of yen
March 31, 2014	At beginning of period	Increase	Decrease	At end of period
Under provisions of Petroleum and Inflammable Natural Gas Resources Development Law	**¥ 4,822**	**¥ 2,711**	**¥ 44**	**¥ 7,489**
Under provisions of Environmental Protection and Enhancement Act, etc. enforced in the Province of Alberta, Canada	**2,974**	**1,974**	**25**	**4,923**
Under provisions of Act on Prevention of Marine Pollution and Maritime Disaster	**1,927**	**43**	–	**1,971**
Under provisions of land lease contracts and other	**1,283**	**776**	**224**	**1,836**
Total	**¥ 11,007**	**¥ 5,506**	**¥ 293**	**¥ 16,221**

March 31, 2014	At beginning of period	Increase	Decrease	At end of period
	Thousands of U.S. dollars			
Under provisions of Petroleum and Inflammable Natural Gas Resources Development Law	$ 47,274	$ 26,578	$ 431	$ 73,421
Under provisions of Environmental Protection and Enhancement Act, etc. enforced in the Province of Alberta, Canada	29,156	19,352	245	48,264
Under provisions of Act on Prevention of Marine Pollution and Maritime Disaster	18,892	421	–	19,323
Under provisions of land lease contracts and other	12,578	7,607	2,196	18,000
Total	$ 107,911	$ 53,980	$ 2,872	$ 159,029

13. Contingent Liabilities

At March 31, 2014 and 2013, the Group had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Guarantee obligation for loans payable from financial institutions, etc.:			
INPEX North Caspian Sea, Ltd.	¥ 11,189	¥ 9,368	$ 109,696
Sakhalin Oil and Gas Development Co., Ltd.	6,177	8,706	60,558
Employees (Housing loans)	447	570	4,382
TOHOKU NATURAL GAS Co., Inc.	304	517	2,980
Kumamoto Mirai LNG Co., Ltd.	83	88	813
Guarantee obligation relating to production facilities:			
Kangean Energy Indonesia Ltd.	14,314	15,871	140,333
Total	¥ 32,517	¥ 35,123	$ 318,794

14. Information Related to Consolidated Statement of Changes in Equity

(1) Dividends paid to shareholders

2014

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 25, 2013	Annual General Meeting of Shareholders	Common stock	¥ 1,143	$ 11,205	¥ 20	$ 0.19	March 31, 2013	June 26, 2013
November 8, 2013	Board of Directors	Common stock	¥ 1,428	$ 14,000	¥ 25	$ 0.24	September 30, 2013	November 29, 2013

2013

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 26, 2012	Annual General Meeting of Shareholders	Common stock	¥ 1,143	¥ 20	March 31, 2012	June 27, 2012
November 2, 2012	Board of Directors	Common stock	¥ 1,143	¥ 20	September 30, 2012	December 4, 2012

(2) Dividends with a shareholders' cut-off date during the fiscal year but an effective date subsequent to the fiscal year

2014

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 25, 2014	Annual General Meeting of Shareholders	Common stock	**¥ 1,428**	**$ 14,000**	Retained earnings	**¥ 25**	**$ 0.24**	March 31, 2014	June 26, 2014

2013

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 25, 2013	Annual General Meeting of Shareholders	Common stock	¥ 1,143	Retained earnings	¥ 20	March 31, 2013	June 26, 2013

15. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Selling, general and administrative expenses:			
Personnel expenses	**¥10,284**	¥ 9,983	**$100,823**
Significant components of personnel expenses:			
Retirement benefit expenses	**667**	689	**6,539**
Provision for directors' bonuses	**117**	24	**1,147**
Provision for directors' retirement benefits	**165**	179	**1,617**
Freightage expenses	**4,555**	4,246	**44,656**
Depreciation	**4,175**	4,412	**40,931**

Research and development expenses included in general and administrative expenses for the years ended March 31, 2014 and 2013 were ¥177 million ($1,735 thousand) and ¥262 million, respectively.

16. Impairment Loss

For the purpose of recognition and measurement of impairment loss, business-use assets of the Group such as oil and gas fields are principally grouped into minimum cash generating units. However, idle assets are individually considered.

For the year ended March 31, 2014, the Group recorded an impairment loss on the following asset group:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Business-use assets related to Yufutsu oil and gas field:		
Tomakomai, Hokkaido		
Buildings and structures	**¥ 2,199**	**$ 21,558**
Wells	**47**	**460**
Machinery, equipment and vehicles	**4,972**	**48,745**
Other	**763**	**7,480**
Total	**¥ 7,983**	**$ 78,264**

For the business-use assets related to the Yufutsu oil and gas field, the carrying amount of the business-use assets related to production operations was reduced to the recoverable amount due to the additional reduction in productivity identified through the revaluation of the field, and the reduction was recorded as impairment loss in other expenses.

The recoverable amount of the asset group was mainly measured at value in use and calculated by discounting the future cash flows at 10%.

For the year ended March 31, 2013, the Group recorded an impairment loss on the following asset group:

	Millions of yen
	2013
Business-use assets related to Yufutsu oil and gas field:	
Tomakomai, Hokkaido	
Buildings and structures	¥ 6,556
Wells	4,397
Machinery, equipment and vehicles	22,506
Land	2,914
Other	657
Total	¥ 37,031

For the business-use assets related to the Yufutsu oil and gas field, the carrying amount of the business-use assets related to production operations was reduced to the recoverable amount due to the reduced productivity of the field, and the reduction was recorded as impairment loss in other expenses.

The recoverable amount of the asset group was mainly measured at value in use and calculated by discounting the future cash flows at 10%.

17. Information on Related Party Transactions

(1) Related party transactions

Principal transactions between the Company and Sakhalin Oil and Gas Development Co., Ltd., the associate accounted for using the equity method, for the years ended March 31, 2014 and 2013 and related balances are as follows.

Sakhalin Oil and Gas Development Co., Ltd. became an associate due to the additional acquisition of shares in it by the Company as of March 29, 2013, and transactions on or after the same day are stated as follows:

Transactions:	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Purchase of crude oil (*1)	**¥ 56,269**	¥ –	**$ 551,656**
Guarantee of obligation (*2)	**¥ –**	¥ 8,706	**$ –**

Balances:	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Accounts payable - trade	**¥ 8,291**	¥ –	**$ 81,284**

Principal transactions between the Company and Kangean Energy Indonesia Ltd., the associate accounted for using the equity method, for the years ended March 31, 2014 and 2013 and related balances are as follows:

Transactions:	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Offering loans (*3)	**¥ –**	¥ 2,414	**$ –**
Collection of loans	**¥ 2,830**	¥ 1,193	**$ 27,745**
Guarantee of obligation (*4)	**¥ 14,314**	¥ 15,871	**$ 140,333**

Balances:	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Short-term loans receivable	**¥ 2,877**	¥ 2,629	**$ 28,205**
Long-term loans receivable	**¥ 16,708**	¥ 17,494	**$ 163,803**

Principal transactions between the Company and EMP Exploration (Kangean) Ltd., the associate accounted for using the equity method, for the years ended March 31, 2014 and 2013 and related balances are as follows:

Transactions:	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Offering loans (*3)	¥ –	¥ 1,609	$ –
Collection of loans	¥ 1,886	¥ 795	$ 18,490

Balances:	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term loans receivable	¥ 1,918	¥ 1,752	$ 18,803
Long-term loans receivable	¥ 11,139	¥ 11,663	$ 109,205

(*1) Prices for purchase of crude oil from Sakhalin Oil and Gas Development Co., Ltd. are determined based on the market price.
(*2) The Company provides Sakhalin Oil and Gas Development Co., Ltd. with a guarantee of an obligation for its development project expenses and determines the reasonable guarantee fee rate considering the project plan. The amount of the transaction indicates the balance of the guaranty as of the year-end.
(*3) The Company determines the reasonable interest rates of loans receivable from Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd. based on the market interest rates.
(*4) The Company provides Kangean Energy Indonesia Ltd. with a guarantee of an obligation for its production facilities and determines the reasonable guarantee fee rate considering the project plan. The amount of the transaction indicates the balance of the guaranty as of the year-end.

(2) Note to significant associates

For the years ended March 31, 2014 and 2013, the summarized financial information of all associates accounted for using the equity method (14 companies in 2014 and 13 companies in 2013), including a significant associate, Sakhalin Oil and Gas Development Co., Ltd., is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total current assets	¥ 194,930	¥ 165,420	$1,911,078
Total non-current assets	188,117	157,112	1,844,284
Total current liabilities	102,502	88,308	1,004,921
Total non-current liabilities	174,664	147,391	1,712,392
Total net assets	105,880	86,832	1,038,039
Net sales	284,986	69,513	2,793,980
Income before income taxes	103,260	11,003	1,012,352
Net income	69,148	9,059	677,921

Note: Sakhalin Oil and Gas Development Co., Ltd. became an associate due to the additional acquisition of shares by the Company as of March 29, 2013, and the amounts of its income statement items for the year ended March 31, 2013 are not included in the above.

18. Amounts per Share

Net income per share is computed based on the net income available to common shareholders and the weighted average number of shares of common stock outstanding during the period, which is 57,152 thousand shares during the years ended March 31, 2014 and 2013.

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

	Yen		U.S. dollars
	2014	2013	**2014**
Net income (loss) per share	**¥ 507.68**	¥ (15.14)	**$ 4.97**
Net assets per share	**7,389.62**	6,691.58	**72.44**

Diluted net income per share is not disclosed due to the absence of dilutive shares for the years ended March 31, 2014 and 2013.

19. Cash Flow Information

Reconciliations between cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2014 and 2013 and cash and deposits in the consolidated balance sheets as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and deposits	**¥ 81,031**	¥ 53,870	**$ 794,421**
Time deposits with maturities in excess of three months	**(27,180)**	(18,454)	**(266,470)**
Short-term investments with maturities of three months or less and others:			
Commercial papers	**9,999**	13,998	**98,029**
Repo with forward resale commitment	**8,999**	26,998	**88,225**
Money management fund and other	**29,980**	36,226	**293,921**
Cash and cash equivalents	**¥ 102,830**	¥ 112,639	**$1,008,137**

20. Other Comprehensive Income

Reclassification adjustments and income tax benefit (expense) on components of other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	**¥ 10,179**	¥ (15,734)	**$ 99,794**
Reclassification adjustments	**(692)**	(263)	**(6,784)**
Pre-tax amount	**9,486**	(15,997)	**93,000**
Income tax benefit (expense)	**(2,943)**	4,953	**(28,852)**
Valuation difference on available-for-sale securities	**6,543**	(11,043)	**64,147**
Deferred gains or losses on hedges:			
Gains (losses) arising during the year	**(318)**	686	**(3,117)**
Reclassification adjustments	**(80)**	(386)	**(784)**
Pre-tax amount	**(399)**	300	**(3,911)**
Income tax benefit (expense)	**110**	(79)	**1,078**
Deferred gains or losses on hedges	**(288)**	221	**(2,823)**
Foreign currency translation adjustment:			
Gains (losses) arising during the year	**9,486**	3,384	**93,000**
Reclassification adjustments	**–**	5	**–**
Foreign currency translation adjustment	**9,486**	3,389	**93,000**
Share of other comprehensive income of entities accounted for using equity method:			
Gains (losses) arising during the year	**57**	(12)	**558**
Reclassification adjustments	**(18)**	–	**(176)**
Share of other comprehensive income of entities accounted for using equity method	**39**	(12)	**382**
Total other comprehensive income	**¥ 15,781**	¥ (7,444)	**$ 154,715**

21. Segment Information

(1) Overview of reporting segments

Reporting segments are defined as components of the Group for which separate financial information is available and whose operating results are regularly evaluated by the Board of Directors to make decisions about how resources are allocated among the Group and assess its performance.

The Group is involved primarily in oil and natural gas related business. In addition to our domestic operations, the Group develops its overseas operations through project companies established at each operational site.

Therefore, the Group consists of segments based on the operational site, and identifies “Japan,” “North America” and “Middle East” as its reporting segments.

“Japan” is engaged in exploration, development, production, purchasing, sales and transportation of crude oil and natural gas, manufacture, purchasing, sales and transportation of petroleum products, and well drilling contracts, etc. in Japan.

“North America” is engaged in exploration, development, production, purchasing, sales, etc. of crude oil, natural gas and bitumen (extra-heavy oil extracted from oil sands) in North America.

“Middle East” is engaged in development, production, sales, etc. of crude oil and natural gas in the Middle East.

(2) Basis of measurement for the amounts of sales, profit (loss), assets and other items for each reporting segment

The accounting policies of each reporting segment are basically consistent with those disclosed in Note 2. Significant Accounting Policies. Segment profit is measured on a basis of operating income. Intersegment sales and transfers are accounted for based on actual market prices.

(3) Information about net sales, profit (loss), assets and other items

Millions of yen

March 31, 2014	Reporting segment: Japan	Reporting segment: North America	Reporting segment: Middle East	Reporting segment: Total	Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales:								
Sales to third parties	**¥ 261,529**	**¥ 14,668**	**¥ 390**	**¥ 276,588**	**¥ –**	**¥ 276,588**	**¥ –**	**¥ 276,588**
Intersegment sales and transfers	**18**	**–**	**15,853**	**15,871**	**–**	**15,871**	**(15,871)**	**–**
Total sales	**261,547**	**14,668**	**16,244**	**292,460**	**–**	**292,460**	**(15,871)**	**276,588**
Segment profit (loss)	**31,607**	**1,897**	**2,263**	**35,767**	**(997)**	**34,770**	**(10,135)**	**24,634**
Segment assets	**68,458**	**133,134**	**30,568**	**232,160**	**3,814**	**235,975**	**427,063**	**663,038**
Other items:								
Depreciation and amortization	**12,383**	**2,650**	**48**	**15,082**	**–**	**15,082**	**485**	**15,567**
Amortization of goodwill	**–**	**48**	**52**	**100**	**–**	**100**	**–**	**100**
Share of profit (loss) of entities accounted for using equity method	**1,608**	**(162)**	**(2)**	**1,442**	**10,731**	**12,174**	**(33)**	**12,140**
Investments in entities accounted for using the equity method	**771**	**1,352**	**1,947**	**4,071**	**30,566**	**34,638**	**0**	**34,638**
Increase in property, plant and equipment and intangible assets	**8,388**	**118,604**	**–**	**126,993**	**–**	**126,993**	**247**	**127,241**

Millions of yen

March 31, 2013	Reporting segment: Japan	Reporting segment: North America	Reporting segment: Middle East	Reporting segment: Total	Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales:								
Sales to third parties	¥ 221,089	¥ 9,996	¥ –	¥ 231,086	¥ –	¥ 231,086	¥ –	¥ 231,086
Intersegment sales and transfers	15	–	–	15	–	15	(15)	–
Total sales	221,105	9,996	–	231,101	–	231,101	(15)	231,086
Segment profit (loss)	26,015	(191)	(104)	25,719	(1,308)	24,410	(10,504)	13,906
Segment assets	77,174	13,961	24,522	115,658	3,105	118,763	406,409	525,172
Other items:								
Depreciation and amortization	14,977	896	–	15,873	–	15,873	421	16,294
Amortization of goodwill	–	–	6	6	–	6	–	6
Share of profit (loss) of entities accounted for using equity method	923	–	(2)	921	(122)	798	(45)	753
Investments in entities accounted for using the equity method	771	–	1,947	2,718	31,819	34,538	0	34,538
Increase in property, plant and equipment and intangible assets	6,221	6,770	–	12,991	–	12,991	303	13,294

March 31, 2014	Reporting segment: Japan	North America	Middle East	Total	Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
	Thousands of U.S. dollars							
Net sales:								
Sales to third parties	$2,564,009	$ 143,803	$ 3,823	$2,711,647	$ –	$ 2,711,647	$ –	$ 2,711,647
Intersegment sales and transfers	176	–	155,421	155,598	–	155,598	(155,598)	–
Total sales	2,564,186	143,803	159,254	2,867,254	–	2,867,254	(155,598)	2,711,647
Segment profit (loss)	309,872	18,598	22,186	350,656	(9,774)	340,882	(99,362)	241,509
Segment assets	671,156	1,305,235	299,686	2,276,078	37,392	2,313,480	4,186,892	6,500,372
Other items:								
Depreciation and amortization	121,401	25,980	470	147,862	–	147,862	4,754	152,617
Amortization of goodwill	–	470	509	980	–	980	–	980
Share of profit (loss) of entities accounted for using equity method	15,764	(1,588)	(19)	14,137	105,205	119,352	(323)	119,019
Investments in entities accounted for using the equity method	7,558	13,254	19,088	39,911	299,666	339,588	0	339,588
Increase in property, plant and equipment and intangible assets	82,235	1,162,784	–	1,245,029	–	1,245,029	2,421	1,247,460

Note 1: "Other" which does not belong to reporting segments includes the South East Asia and others.

Note 2: "Adjustments and eliminations" includes the following:

(a) Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Intersegment elimination	**¥ 0**	¥ 0	**$ 0**
Corporate expense (*)	**(10,135)**	(10,504)	**(99,362)**
Total	**¥ (10,135)**	¥ (10,504)	**$ (99,362)**

(*) "Corporate expense" presents mainly general and administrative expenses and experiment and research expense that are not allocated to reporting segments.

(b) Segment assets

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Intersegment elimination	**¥ (25)**	¥ (25)	**$ (245)**
Corporate assets (*1)	**3,754**	4,002	**36,803**
Other assets (*2)	**423,334**	402,431	**4,150,333**
Total	**¥ 427,063**	¥ 406,409	**$ 4,186,892**

(*1) "Corporate assets" presents mainly the assets administrated by the head office that are not allocated to reporting segments.

(*2) Assets allocated to reporting segments consist of property, plant and equipment, intangible assets and recoverable accounts included in investments and other assets. "Other assets" consists of property, plant and equipment, intangible assets and other assets other than recoverable accounts, which are not allocated to reporting segments.

Note 3: Segment profit (loss) is reconciled to operating income in the consolidated statements of income.

(4) Related information

(a) Information by product and service

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Sales to third parties			
Crude oil	**¥ 108,408**	¥ 78,834	**$ 1,062,823**
Natural gas	**71,584**	69,795	**701,803**
LNG	**26,202**	19,098	**256,882**
Bitumen	**10,962**	9,694	**107,470**
Contract services	**8,740**	9,674	**85,686**
Oil products/merchandise	**42,860**	36,034	**420,196**
Other	**7,830**	7,953	**76,764**
Total	**¥ 276,588**	¥ 231,086	**$ 2,711,647**

(b) Information by geographical area

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net sales:			
Japan	**¥ 186,735**	¥ 173,808	**$ 1,830,735**
Canada	**13,494**	9,694	**132,294**
Russia	**56,299**	46,190	**551,950**
Other	**20,060**	1,392	**196,666**
Total	**¥ 276,588**	¥ 231,086	**$ 2,711,647**

Note: Net sales are accounted for by country or geographical area on the basis of the location in which products have been delivered or services have been rendered.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Property, plant and equipment:			
Japan	**¥ 71,331**	¥ 80,175	**$ 699,323**
Canada	**127,492**	9,918	**1,249,921**
Other	**1,728**	589	**16,941**
Total	**¥ 200,552**	¥ 90,683	**$ 1,966,196**

(c) Information by major customer

Information by major customer is omitted since there were no sales to single external customer accounting for 10% or more of net sales in the consolidated statements of income for the years ended March 31, 2014 and 2013.

(5) Information about impairment loss on non-current assets by reporting segment

	Millions of yen					
	Reporting segment			Other	Corporate/ eliminations	Total
March 31, 2014	Japan	North America	Middle East			
Impairment loss	**¥ 7,983**	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥ 7,983**

	Millions of yen					
	Reporting segment			Other	Corporate/ eliminations	Total
March 31, 2013	Japan	North America	Middle East			
Impairment loss	¥ 37,094	¥ –	¥ –	¥ –	¥ –	¥ 37,094

	Thousands of U.S. dollars					
	Reporting segment			Other	Corporate/ eliminations	Total
March 31, 2014	Japan	North America	Middle East			
Impairment loss	**$ 78,264**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 78,264**

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Building a better working world

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Independent Auditor's Report

The Board of Directors
Japan Petroleum Exploration Co., Ltd.

We have audited the accompanying consolidated financial statements of Japan Petroleum Exploration Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Petroleum Exploration Co., Ltd. and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 25, 2014

Memo

Principal Consolidated Subsidiaries and Equity-Method Affiliates

(As of March 31, 2014)

Consolidated Subsidiaries	Principal Business Activities	Paid-In Capital or Subscription Amount (Millions of yen)	Percentage of Voting Rights Held (%)
Akita Natural Gas Pipeline Co., Ltd.	Pipeline transport of natural gas in Akita Prefecture	250	100.00
SK Engineering Co., Ltd.	Contract engineering and well drilling	300	100.00
JAPEX SKS Corporation	Manufacture and sales of petroleum products, real estate management and insurance agent services	90	100.00
North Japan Oil Co., Ltd.	Refining, processing and sales of crude oil, recycling of waste oil, and contract handling and transportation of LNG and crude oil	80	100.00
Shirone Gas Co., Ltd. *1	Manufacturing, supply and sales of gas in Niigata City and Tsubame City	3,000	100.00
Japex Pipeline Ltd.	Pipeline management and maintenance	80	100.00
JGI, Inc. *1	Contract geophysical surveys and development of geophysical exploration technologies	2,100	100.00
Geophysical Surveying Co., Ltd.	Geophysical surveys and contract mud logging operations	446	100.00
Japex (U.S.) Corp. *1	Exploration, development and production of petroleum in the United States, and investment in an LNG project in Malaysia	33,000 (Thousands of U.S. dollars)	100.00
Japan Canada Oil Sands Limited *1, *3	Exploration, development and production of oil sands in Canada under a block lease agreement	530,470 (Thousands of Canadian dollars)	100.00 (100.00)
Canada Oil Sands Co., Ltd. *1, *3	Invests in oil sands exploration and development through Japan Canada Oil Sands Limited	12,787	93.28 (1.34)
JAPEX Montney Ltd. *1	Exploration, development and production of shale gas in Canada	826,725 (Thousands of Canadian dollars)	50.00
JAPEX UK E&P Ltd.	Exploration, development and production of offshore petroleum in the U.K.'s North Sea	1 (British pounds)	100.00
North Japan Security Service Co., Ltd.	Disaster protection for industrial facilities and security services	30	89.42
Japex Offshore Ltd. *1	Exploration, development and production of offshore petroleum from the continental shelf in the Sea of Japan	5,963	70.61
GEOSYS, Inc. *3	Contract geophysical exploration operations and sales of geophysical exploration devices and equipment	49	57.82 (57.82)
Japex Block A Ltd. *1	Exploration, development and production of petroleum on the island of Sumatra in Indonesia	2,540	100.00
Japex Energy Co., Ltd. *6	Purchasing and sales of LNG and petroleum products	90	90.00
Japex Garraf Ltd. *1	Exploration, development and production of petroleum in the Garraf oil field in Iraq	25,930	55.00

Equity-Method Affiliates	Principal Business Activities	Paid-In Capital or Subscription Amount (Millions of yen)	Percentage of Voting Rights Held (%)
TOHOKU NATURAL GAS Co., Inc.	Purchasing and sales of natural gas in the Tohoku region of Japan	300	45.00
TELNITE CO., LTD.	Manufacture and sales of drilling mud for well drilling and the provision of mud services	98	47.00
Universe Gas & Oil Company, Inc.	Exploration, development and production of petroleum in the eastern onshore region of Kalimantan Island	5,080	33.43
Sakhalin Oil and Gas Development Co., Ltd.	Exploration, development and production of petroleum in and Sakhalin in the Russia Federation	22,592	15.29
Japan Drilling Co., Ltd.*5	Contract offshore well drilling for petroleum	7,572	30.98
Energi Mega Pratama Inc.	Exploration, development and production of petroleum in the east coast of Java in Indonesia	52,000 (Thousands of U.S. dollars)	25.00
Kangean Energy Indonesia Ltd. *2, *4	Exploration, development and production of petroleum in the east coast of Java in Indonesia	10 (Thousands of U.S. dollars)	— [100.00]
EMP Exploration (Kangean) Ltd. *2, *4	Exploration, development and production of petroleum in the east coast of Java in Indonesia	100 (British pounds)	— [100.00]
Diamond Gas Netherlands B.V. *3	Invests in a project operated by Malaysian LNG producer Malaysia LNG Tiga	12,316 (Thousands of euros)	20.00 (20.00)
Japan CBM Limited	Exploration, development and production of coal bed methane in the eastern onshore region of Kalimantan Island in Indonesia	605	40.12

Notes:
*1 Specified subsidiaries.
*2 Square brackets appearing in the voting rights column indicate the voting rights of individuals close to the Company or individuals agreeing with the Company and are excluded from the total.
*3 Parenthesis appearing in the voting rights column indicate indirect voting rights which are included in the total.
*4 Although shareholdings in Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd. amount to less than 20%, the Company considers the two to be affiliated companies because the Company essentially holds control of both.
*5 Companies that produce Annual Securities Reports.
*6 Companies whose net sales exceed 10% of consolidated net sales.

Corporate Data

Corporate Information (As of March 31, 2014)

Company Name	Japan Petroleum Exploration Co., Ltd. (Abbreviation: JAPEX)
Service Logo	JAPEX
Established	April 1, 1970
Paid-In Capital	14,288,694,000 yen
Fiscal Year	April 1 to March 31 of the following year
Number of Employees	1,782 (Consolidated)
Principal Businesses	Exploration, development and sales of oil, natural gas, and other energy resources and contract service-related operations such as drilling
Main Offices	Headquarters (see below), Hokkaido, Akita, Nagaoka, Research Center (Chiba), London, Dubai, Houston, Beijing, Jakarta
Headquarters	SAPIA Tower, 1-7-12 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan TEL: +81-3-6268-7000 FAX: +81-3-6268-7300 URL: http://www.japex.co.jp/english/index.html

Directors, Corporate Auditors and Executive Officers (As of June 25, 2014)

Chairman
Yuji Tanahashi

President & Chief Executive Officer
Osamu Watanabe

Executive Vice Presidents & Executive Officers
Shoichi Ishii
Junichi Matsumoto

Senior Managing Directors & Executive Officers
Mitsuru Saito
Nobuyuki Ogura
Kazuo Nakayama
Kiyoshi Ogino

Notes:
1. Director Kazuo Kawakami is an outside director as stipulated under Article 2-15 of the Companies Act.
2. Corporate auditors Masahiko Kadotani and Norio Nakajima are outside corporate auditors as stipulated under Article 2-16 of the Companies Act.

Managing Directors & Executive Officers
Hitoshi Yamatoya
Hikaru Fukasawa
Yosuke Higai
Shigeru Mitsuya
Motofumi Hyodo

Outside Director
Kazuo Kawakami

Corporate Auditors
Nobuaki Moritani
Morio Ishizeki

Outside Corporate Auditors
Masahiko Kadotani
Norio Nakajima

Special Advisor to President
Ajay Singh

Managing Executive Officers
Yasuhiro Masui
Kazuhiko Ozeki
Takahisa Inoue
Hajime Ito

Executive Officers
Hirotaka Tanaka
Toshiyuki Hirata
Yoya Murahashi
Yasushi Hamada
Michiro Yamashita
Hideaki Takahashi
Yoshitaka Ishii

Stock Information (As of March 31, 2014)

Exchange Listing	First Section of the Tokyo Stock Exchange (Securities Code Number: 1662)
Common Stock	Authorized: 120,000,000 shares Issued: 57,154,776 shares
Number of Shareholders	17,646

Transfer Agent and Registrar
Mizuho Trust & Banking Co., Ltd.

Inquiries
Mizuho Trust & Banking Co., Ltd., Stock Transfer Agency Division
8-4 Izumi 2-chome, Suginami-ku, Tokyo 168-8507, Japan
TEL: 0120-288-324 (Toll-free in Japan)

Major Shareholders

Shareholders	Shares	Voting Rights (%)
The Minister of Economy, Trade and Industry	19,432,724	34.00
INPEX CORPORATION	2,852,212	4.99
Japan Trustee Services Bank, Ltd. (Trust)	2,231,700	3.90
The Master Trust Bank of Japan, Ltd. (Trust)	2,218,700	3.88
JFE Engineering Corporation	1,848,012	3.23
JX Holdings, Inc.	1,149,984	2.01
Mizuho Bank, Ltd.	720,152	1.26
NIPPON STEEL & SUMITOMO METAL CORPORATION	610,316	1.07
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	600,000	1.05
State Street Bank and Trust Company 505103	499,167	0.87

Inquiries:
Please contact the following if you have inquiries related to Investor Relations (IR).

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JAPEX

Japan Petroleum Exploration Co., Ltd.

This report has been printed using environmentally friendly paper from FSC®-certified forests and vegetable-based ink.
Moreover, the printing process used a waterless system that does not emit wastewater.

Cover photographs
Top left: Katakai Gas Field (Niigata Prefecture)
Top right: Outcrop of the Onnagawa formation (Akita Prefecture)
Bottom: Geophysical Survey (Akita Prefecture)

2014.9 Printed in Japan