Japan Petroleum Exploration Co., Ltd.

Corporate Report 2017

Financial Data Book

For the year ended March 31, 2017
(From April 1, 2016 to March 31, 2017)

Contents

Management's Discussion and Analysis

Scope of Operations

The JAPEX Group comprises, as of March 31, 2017, JAPEX, 23 consolidated subsidiaries, and other Group companies. The core of its business activities is crude oil and natural gas-related operations. In addition to its business activities in Japan, the JAPEX Group is conducting business overseas through its project companies established at each business base.

Analysis of Operating Results

Overview

In fiscal year (FY) 2017/3, ended March 31, 2017, net sales were ¥207.1 billion, a decline of ¥33.1 billion, or 13.8%, compared with the previous fiscal year. Operating income declined ¥7.6 billion, or 91.8%, year on year, to ¥0.6 billion, and profit attributable to owners of parent rose ¥1.3 billion, or 64.7%, to ¥3.4 billion.

Crude Oil Prices and Exchange Rates

The average unit sales price of crude oil received by JAPEX during FY2017/3 was ¥30,492 per kiloliter, a decline of ¥3,002 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.

The weighted average price of crude oil based on the Japan Crude Cocktail (JCC) price was $45.60 per barrel, a decrease of $5.88 from the level per barrel of the previous fiscal year. Compared with the previous fiscal year, the yen appreciated ¥12.53 versus the US dollar, for a weighted average exchange rate of ¥108.53.

The Group's average crude oil sales price decreased compared with FY2016/3 as a result of the declines in dollar-denominated crude oil prices shown above and yen appreciation.

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.

The weighted average unit sales price of bitumen was $9.94 per barrel, down $11.11 from FY2016/3.

Capital Expenditures and Depreciation

Capital expenditures decreased ¥15.8 billion year on year, to ¥68.3 billion. Major components of these expenditures included investments related to oil sands development in Canada and the Soma LNG Terminal and natural gas pipeline. Depreciation and amortization declined ¥1.3 billion year on year, to ¥15.6 billion.

Payments of recoverable accounts fell ¥21.5 billion year on year, to ¥21.4 billion, mainly for development of the Garraf Oil Field in Iraq, and recovery of recoverable accounts totaled ¥26.4 billion, a decrease of ¥14.9 billion from the previous fiscal year.

Exploration Activities

Exploration expenses (after excluding government subsidies) declined ¥5.0 billion year on year, to ¥1.5 billion.

Domestic exploration costs were mainly attributable to exploratory drilling and geological surveys, etc. in Hokkaido and Fukushima Prefecture in the geothermal business. Principal overseas exploration costs were for exploratory drilling in the U.K. North Sea Offshore Block.

Net Sales

In FY2017/3, net sales in the E&P business amounted to ¥157.7 billion, accounting for 76.1% of the total. Net sales of Contract Services were ¥10.3 billion, or 5.0% of the total. Net sales of Other businesses were ¥39 billion, or 18.9% of the total.

The following is an analysis of net sales in the E&P business, which accounts for the largest share of sales.

Crude oil sales volume decreased 250 thousand kiloliters, or 8.8%, compared with FY2016/3 to 2,670 thousand kiloliters, mainly due to a decrease in oil sales volume for the Garraf Oil Field in Iraq. In addition, crude oil sales fell ¥16.5 billion, or 16.9%, year on year, to ¥81.4 billion owing to the fall in crude oil sales prices.

Natural gas sales volume increased 84 million cubic meters, or 4.7%, year on year, to 1.8 billion cubic meters. This volume growth mainly reflected factors such as an increase in sales volume of the North Montney region in Canada. However, sales of natural gas fell ¥13.1 billion, or 19.2%, year on year, to ¥55.3 billion, as the unit sales price of natural gas declined ¥8.79 per cubic meter year on year, to ¥29.67 per cubic meter.

LNG sales volume increased 190 thousand tons, or 91.3%, year on year, to 398 thousand tons, and LNG sales rose ¥2.5billion, or 14.5%, to ¥20.2 billion.

As a result of the temporary suspension of production at Japan Canada Oil Sands Limited, bitumen sales volume decreased 214 thousand kiloliters, or 70.1%, year on year, to 91 thousand kiloliters, and bitumen sales fell ¥4.2 billion, or 86.3%, year on year, to ¥0.6 billion.

Operating Expenses

The cost of sales declined ¥18 billion compared with the previous fiscal year, to ¥174.9 billion. This was mainly the result of decreases in the purchase price of LNG accompanying a decline in the CIF price for LNG as a result of the drop in crude oil prices.

Selling, general, and administrative (SG&A) expenses declined ¥2.4 billion from the previous fiscal year, to ¥29.9 billion.

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

As a result, operating income declined ¥7.6 billion compared with FY2016/3, to ¥0.6 billion.

Non-operating Income (Loss)

Total non-operating income increased ¥1.2 billion year on year, to ¥8.0 billion, owing to such factors as the conversion of foreign exchange losses booked in FY2016/3 to foreign exchange gains, despite the shares of profits of entities accounted for using the equity method recorded in FY2016/3 becoming losses in FY2017/3 as result of factors mainly consisting of an impairment loss recorded by Japan Drilling Co., Ltd.

Non-operating expenses were ¥6.4 billion, decreasing ¥3.9 billion compared with the previous fiscal year due to such factors as the above-noted decrease in foreign exchange losses despite the booking of shares of losses of entities accounted for using the equity method.

As a result, ordinary income declined ¥2.4 billion compared with FY2016/3, to ¥2.2 billion.

Extraordinary Gain (Loss)

JAPEX recorded extraordinary income of ¥1.3 billion, up ¥1.2 billion from FY2016/3, as a result of such factors as gain on sales of non-current assets.

Extraordinary losses, meanwhile, contracted ¥2.8 billion year on year, to ¥0.3 billion, accompanying a decrease in impairment losses.

As a result of the above, profit before income taxes rose ¥1.6 billion year on year, to ¥3.1 billion.

Profit Attributable to Owners of Parent

For the fiscal year under review, current and deferred income taxes amounted to ¥1.6 billion, an ¥4.7 billion decrease compared with the previous fiscal year. Income tax after the application of tax-effect accounting corresponded to 51.4% of profit before income taxes of ¥3.1 billion. That is 23.2% higher than JAPEX's statutory tax rate of 28.2%. This reflects chiefly an increase in the consolidation adjustment for equity method.

Loss attributable to non-controlling interests was ¥1.8 billion (compared to loss attributable to non-controlling interests in FY2016/03 of ¥6.9 billion).

As a result of the above, after deducting income taxes and non-controlling interests, JAPEX recorded profit attributable to owners of parent of ¥3.4 billion, an increase of ¥1.3 billion compared with the previous fiscal year.

Analysis of Financial Position and Cash Flows

Balance Sheet

Total assets at the end of FY2017/3 stood at ¥746.7 billion, an increase of ¥39.1 billion year on year.

Total current assets fell ¥12.2 billion compared with the end of the previous fiscal year, to ¥161.3 billion, owing to such factors as a decrease in securities by ¥22.2 billion, despite an increase in cash and deposits by ¥5.1 billion and short-term loans receivable by ¥4.3 billion.

Non-current assets increased ¥51.4 billion compared with the end of the previous fiscal year, to ¥585.3 billion, owing to such factors as an increase in construction in progress by ¥38.5 billion and in the balance of investment securities by ¥12.9 billion.

Total liabilities at the fiscal year-end amounted to ¥236.1 billion, a year-on-year increase of ¥23.8 billion.

Current liabilities increased ¥5.6 billion year on year, to ¥37.9 billion, mainly due to an increase in notes and accounts payable - trade by ¥5.0 billion.

Non-current liabilities increased ¥18.2 billion year on year, to ¥198.2 billion, mainly due to an increase in long-term loans payable by ¥11.8 billion and in deferred tax liabilities by ¥5.2 billion.

Total net assets rose ¥15.2 billion year on year, to ¥510.6 billion.

Shareholders' equity increased ¥45 million from the previous fiscal year-end, to ¥360.1 billion.

Accumulated other comprehensive income increased ¥16.4 billion, to ¥77.3 billion, mainly due to an increase in the valuation difference on available-for-sale securities by ¥19.2 billion, despite a decrease in foreign currency translation adjustment by ¥2.7 billion.

Non-controlling interests decreased ¥1.2 billion, to ¥73.0 billion.

Cash Flows

As of March 31, 2017, cash and cash equivalents (hereinafter "net cash") totaled ¥103.6 billion, a decrease of ¥22.9 billion 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 ¥43.6 billion. The main factors were ¥26.4 billion in recovery of recoverable accounts, ¥15.6 billion in depreciation and amortization, ¥4.2 billion in share of loss of entities accounted for using equity method, and a ¥3.6 billion increase in notes and accounts receivable - trade.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥84.6 billion. Net cash used consisted mainly of purchases of property, plant and equipment of ¥70.2 billion and payments of recoverable accounts of ¥21.3 billion, while net cash was provided mainly by interest and dividend income received of ¥5.5 billion and proceeds from capital reduction of investments of ¥3.5 billion.

Cash flows from financing activities

Net cash provided by financing activities was ¥18.3 billion. Net cash was mainly provided by proceeds from long-term loans payable of ¥20.3 billion, while net cash used consisted mainly of cash dividends paid of ¥1.7 billion.

Financial Policy

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

Although working capital is primarily procured using internal funds, working capital is also procured through intercompany loans such as those using CMS (cash management systems) in an effort to improve funding efficiency. In addition, JAPEX had also, as of March 31, 2017, entered into overdraft agreements and loan commitment agreements in a total amount of ¥139.2 billion with eight of its banking partners for the purpose of efficiently procuring working capital.

With funds used for capital investments and overseas investments, when the investment amount warrants 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 (including loans payable within one year) as of the end of FY2017/3 was ¥146.3 billion. The primary components were ¥13.4 billion in loans as capital for development of the Kangean Block in Indonesia and ¥69.4 billion and ¥61.4 billion, respectively, in loans as capital for oil sands development and shale gas development in Canada.

In addition, as of the end of FY2017/3, the JAPEX Group maintained contingent liabilities totaling ¥22.7 billion 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 the basic policy on profit distribution to maintain long-term and stable dividends for shareholders. As a company with the role of providing a stable supply of oil and natural gas essential for the function of society, the specific dividend amount is set after giving comprehensive consideration to investments aimed at securing new, proved reserves worldwide and retaining earnings to fund development and expansion of our supply infrastructure in light of the medium to long-term outlook for the business environment. In addition to the above, we need to consider the level of earnings for each fiscal year and any future funding needs from the perspective of strengthening our financial standing in the midst of the recent deterioration in our consolidated results due to the decline in oil prices.

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.

In terms of the dividend for FY2017/3, we have decided to issue an interim dividend of ¥5 per share and a year-end dividend of ¥10 per share in consideration of the basic policy described above and the consolidated results during FY2017/3, despite the announcement made that the year-end dividend forecast was undecided.

As a result of the above, we decided to issue the annual dividend for FY2017/3 of ¥15 per share (interim dividend of ¥5 per share and a year-end dividend of ¥10 per share).

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

CONSOLIDATED BALANCE SHEET

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2017**	2016	**2017**
Current assets:			
Cash and deposits (Notes 10 and 19)	**¥ 109,488**	¥ 104,359	**$ 977,571**
Notes and accounts receivable - trade (Note 10)	**28,283**	24,642	**252,526**
Securities (Notes 4, 10 and 19)	**1,302**	23,551	**11,625**
Merchandise and finished goods (Note 3)	**4,282**	4,414	**38,232**
Work in process (Note 3)	**84**	29	**750**
Raw materials and supplies (Note 3)	**5,414**	4,135	**48,339**
Deferred tax assets (Note 6)	**143**	1,078	**1,276**
Short-term loans receivable (Note 10)	**4,348**	28	**38,821**
Other	**8,042**	11,430	**71,803**
Less — allowance for doubtful accounts	**(31)**	(30)	**(276)**
Total current assets	**161,359**	173,638	**1,440,705**
Non-current assets:			
Property, plant and equipment (Note 16):			
Land	**16,736**	13,719	**149,428**
Buildings and structures	**170,341**	168,808	**1,520,901**
Wells	**113,166**	109,468	**1,010,410**
Machinery, equipment and vehicles	**117,045**	116,174	**1,045,044**
Construction in progress	**217,984**	179,420	**1,946,285**
Other	**79,292**	67,197	**707,964**
Less — accumulated depreciation	**(330,776)**	(318,569)	**(2,953,357)**
Total property, plant and equipment	**383,790**	336,218	**3,426,696**
Intangible assets:			
Other	**8,487**	9,698	**75,776**
Total intangible assets	**8,487**	9,698	**75,776**
Investments and other assets:			
Investment securities (Notes 4 and 10)	**148,237**	135,261	**1,323,544**
Long-term loans receivable (Note 10)	**11,672**	16,522	**104,214**
Deferred tax assets (Note 6)	**4,668**	3,575	**41,678**
Defined benefit asset (Note 7)	**954**	888	**8,517**
Other (Notes 4 and 16)	**30,171**	34,705	**269,383**
Less — allowance for doubtful accounts	**(51)**	(58)	**(455)**
Less — allowance for overseas investment loss	**(2,549)**	(2,847)	**(22,758)**
Total investments and other assets	**193,102**	188,046	**1,724,125**
Total non-current assets	**585,380**	533,963	**5,226,607**
Total assets	**¥ 746,739**	¥ 707,601	**$ 6,667,312**

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Notes and accounts payable - trade (Note 10)	¥ **13,634**	¥ 8,585	$ **121,732**
Provision for directors' bonuses	**24**	67	**214**
Other (Notes 5 and 6)	**24,252**	23,637	**216,535**
Total current liabilities	**37,911**	32,290	**338,491**
Non-current liabilities:			
Long-term loans payable (Notes 5 and 10)	**141,903**	130,030	**1,266,991**
Deferred tax liabilities (Note 6)	**29,497**	24,267	**263,366**
Provision for directors' retirement benefits	**69**	88	**616**
Defined benefit liability (Note 7)	**3,572**	3,574	**31,892**
Asset retirement obligations (Note 12)	**18,292**	17,811	**163,321**
Other (Note 5)	**4,882**	4,221	**43,589**
Total non-current liabilities	**198,218**	179,994	**1,769,803**
Total liabilities	**236,129**	212,284	**2,108,294**
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, 2017 and 2016	**14,288**	14,288	**127,571**
Capital surplus	**183**	157	**1,633**
Retained earnings	**345,693**	345,674	**3,086,544**
Treasury shares; 2,139 shares as of March 31, 2017 and 2016	**(10)**	(10)	**(89)**
Total shareholders' equity	**360,155**	360,109	**3,215,669**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**69,832**	50,554	**623,500**
Deferred gains or losses on hedges	**(226)**	3	**(2,017)**
Foreign currency translation adjustment	**7,301**	10,087	**65,187**
Remeasurements of defined benefit plans	**455**	253	**4,062**
Total accumulated other comprehensive income	**77,363**	60,899	**690,741**
Non-controlling interests	**73,091**	74,308	**652,598**
Total net assets	**510,609**	495,317	**4,559,008**
Total liabilities and net assets	¥ **746,739**	¥ 707,601	$ **6,667,312**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Net sales	**¥ 207,130**	¥ 240,302	**$ 1,849,375**
Cost of sales (Note 3)	**174,957**	193,022	**1,562,116**
Gross profit	**32,172**	47,279	**287,250**
Exploration expenses	**1,847**	6,631	**16,491**
Exploration subsidies	**(334)**	(115)	**(2,982)**
	1,512	6,516	**13,500**
Selling, general and administrative expenses (Note 15)	**29,975**	32,426	**267,633**
Operating profit	**685**	8,336	**6,116**
Other income (expenses):			
Interest income	**1,243**	1,470	**11,098**
Dividend income	**2,301**	2,498	**20,544**
Gain (loss) on sales of securities, net	**89**	(1)	**794**
Share of profit (loss) of entities accounted for using equity method	**(4,255)**	1,624	**(37,991)**
Foreign exchange gains (losses)	**3,444**	(8,805)	**30,750**
Interest expenses	**(1,245)**	(784)	**(11,116)**
Gain on sales of non-current assets	**892**	82	**7,964**
Gain on transfer of mining rights	**403**	–	**3,598**
Loss on retirement of non-current assets	**(90)**	(121)	**(803)**
Impairment loss (Note 16)	**(62)**	(3,098)	**(553)**
Loss on business liquidation	**(177)**	–	**(1,580)**
Other, net	**(35)**	307	**(312)**
	2,507	(6,827)	**22,383**
Profit before income taxes	**3,192**	1,508	**28,500**
Income taxes (Note 6)**:**			
Income taxes - current	**2,619**	3,633	**23,383**
Income taxes - deferred	**(977)**	2,755	**(8,723)**
	1,642	6,388	**14,660**
Profit (loss)	**1,550**	(4,879)	**13,839**
Loss attributable to non-controlling interests	**(1,892)**	(6,970)	**(16,892)**
Profit attributable to owners of parent (Note 18)	**¥ 3,443**	¥ 2,090	**$ 30,741**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Profit (loss)	**¥ 1,550**	¥ (4,879)	**$ 13,839**
Other comprehensive income (Note 20)**:**			
Valuation difference on available-for-sale securities	**19,302**	(35,606)	**172,339**
Deferred gains or losses on hedges	**(244)**	0	**(2,178)**
Foreign currency translation adjustment	**(4,283)**	(9,752)	**(38,241)**
Remeasurements of defined benefit plans	**267**	(267)	**2,383**
Share of other comprehensive income of entities accounted for using equity method	**(297)**	(416)	**(2,651)**
Changes in equity interest	**(2,103)**	–	**(18,776)**
Total other comprehensive income	**12,640**	(46,043)	**112,857**
Comprehensive income	**¥ 14,191**	¥ (50,923)	**$ 126,705**
Comprehensive income attributable to:			
Owners of parent	**¥ 16,564**	¥ (36,293)	**$ 147,892**
Non-controlling interests	**(2,372)**	(14,630)	**(21,178)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2015	¥ 14,288	¥ –	¥ 346,441	¥ (10)	¥ 360,719
Dividends from surplus			(2,857)		(2,857)
Profit attributable to owners of parent			2,090		2,090
Change in ownership interest of parent due to transactions with non-controlling interests		157			157
Net changes of items other than shareholders' equity					
Total changes of items during period	–	157	(767)	–	(609)
Balance as of April 1, 2016	**14,288**	**157**	**345,674**	**(10)**	**360,109**
Dividends from surplus			**(1,714)**		**(1,714)**
Profit attributable to owners of parent			**3,443**		**3,443**
Change in ownership interest of parent due to transactions with non-controlling interests		**26**			**26**
Change of scope of equity method			**393**		**393**
Cnages in equity interests			**(2,103)**		**(2,103)**
Net changes of items other than shareholders' equity					
Total changes of items during period	**–**	**26**	**19**	**–**	**45**
Balance as of March 31, 2017	**¥ 14,288**	**¥ 183**	**¥ 345,693**	**¥ (10)**	**¥ 360,155**

	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	Non-controlling interests	Total net assets
Balance as of April 1, 2015	¥ 86,174	¥ 3	¥ 12,980	¥ 521	¥ 99,678	¥ 80,249	¥ 540,647
Dividends from surplus							(2,857)
Profit attributable to owners of parent							2,090
Change in ownership interest of parent due to transactions with non-controlling interests							157
Net changes of items other than shareholders' equity	(35,619)	0	(2,892)	(267)	(38,779)	(5,941)	(44,721)
Total changes of items during period	(35,619)	0	(2,892)	(267)	(38,779)	(5,941)	(45,330)
Balance as of April 1, 2016	**50,554**	**3**	**10,087**	**253**	**60,899**	**74,308**	**495,317**
Dividends from surplus							**(1,714)**
Profit attributable to owners of parent							**3,443**
Change in ownership interest of parent due to transactions with non-controlling interests							**26**
Change of scope of equity method							**393**
Cnages in equity interests							**(2,103)**
Net changes of items other than shareholders' equity	**19,277**	**(229)**	**(2,786)**	**201**	**16,463**	**(1,216)**	**15,247**
Total changes of items during period	**19,277**	**(229)**	**(2,786)**	**201**	**16,463**	**(1,216)**	**15,292**
Balance as of March 31, 2017	**¥ 69,832**	**¥ (226)**	**¥ 7,301**	**¥ 455**	**¥ 77,363**	**¥ 73,091**	**¥ 510,609**

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2016	**$ 127,571**	**$ 1,401**	**$ 3,086,375**	**$ (89)**	**$ 3,215,258**
Dividends from surplus			**(15,303)**		**(15,303)**
Profit attributable to owners of parent			**30,741**		**30,741**
Change in ownership interest of parent due to transactions with non-controlling interests		**232**			**232**
Change of scope of equity method			**3,508**		**3,508**
Changes in equity interest			**(18,776)**		**(18,776)**
Net changes of items other than shareholders' equity					
Total changes of items during period	**–**	**232**	**169**	**–**	**401**
Balance as of March 31, 2017	**$ 127,571**	**$ 1,633**	**$ 3,086,544**	**$ (89)**	**$ 3,215,669**

	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	Non-controlling interests	Total net assets
Balance as of April 1, 2016	**$ 451,375**	**$ 26**	**$ 90,062**	**$ 2,258**	**$ 543,741**	**$ 663,464**	**$ 4,422,473**
Dividends from surplus							**(15,303)**
Profit attributable to owners of parent							**30,741**
Change in ownership interest of parent due to transactions with non-controlling interests							**232**
Change of scope of equity method							**3,508**
Changes in equity interest							**(18,776)**
Net changes of items other than shareholders' equity	**172,116**	**(2,044)**	**(24,875)**	**1,794**	**146,991**	**(10,857)**	**136,133**
Total changes of items during period	**172,116**	**(2,044)**	**(24,875)**	**1,794**	**146,991**	**(10,857)**	**136,535**
Balance as of March 31, 2017	**$ 623,500**	**$ (2,017)**	**$ 65,187**	**$ 4,062**	**$ 690,741**	**$ 652,598**	**$ 4,559,008**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Cash provided by (used in) operating activities:			
Profit before income taxes	**¥ 3,192**	¥ 1,508	**$ 28,500**
Depreciation and amortization	**15,690**	17,078	**140,089**
Impairment loss	**62**	3,098	**553**
Loss on retirement of property, plant and equipment	**86**	117	**767**
Loss (gain) on valuation of short-term and long-term investment securities	**10**	69	**89**
Increase (decrease) in allowance for doubtful accounts	**(6)**	2	**(53)**
Decrease (increase) in defined benefit asset	**(65)**	(324)	**(580)**
Increase (decrease) in defined benefit liability	**(1)**	(422)	**(8)**
Increase (decrease) in provision for directors' retirement benefits	**(18)**	(786)	**(160)**
Increase (decrease) in allowance for overseas investment loss	**(298)**	(469)	**(2,660)**
Interest and dividend income	**(3,545)**	(3,968)	**(31,651)**
Interest expenses	**1,245**	784	**11,116**
Foreign exchange losses (gains)	**(1,426)**	8,110	**(12,732)**
Loss (gain) on sales of short-term and long-term investment securities	**(89)**	1	**(794)**
Share of loss (profit) of entities accounted for using equity method	**4,255**	(1,624)	**37,991**
Recovery of recoverable accounts	**26,437**	41,402	**236,044**
Decrease (increase) in notes and accounts receivable - trade	**(3,648)**	609	**(32,571)**
Decrease (increase) in inventories	**(1,219)**	3,707	**(10,883)**
Increase (decrease) in notes and accounts payable - trade	**3,055**	847	**27,276**
Increase (decrease) in accrued consumption taxes	**(1,232)**	(82)	**(11,000)**
Other, net	**3,651**	(2,288)	**32,598**
Subtotal	**46,135**	67,372	**411,919**
Income taxes (paid) refund	**(2,463)**	(9,713)	**(21,991)**
Net cash provided by (used in) operating activities	**43,672**	57,659	**389,928**
Cash provided by (used in) investing activities:			
Payments into time deposits	**(7,249)**	(660)	**(64,723)**
Proceeds from withdrawal of time deposits	**946**	2,079	**8,446**
Proceeds from sales and redemption of securities	**398**	2,400	**3,553**
Purchase of property, plant and equipment	**(70,250)**	(92,953)	**(627,232)**
Proceeds from sales of property, plant and equipment	**951**	109	**8,491**
Purchase of intangible assets	**(323)**	(720)	**(2,883)**
Payments for asset retirement obligations	**(294)**	(829)	**(2,625)**
Purchase of investment securities	**(135)**	(360)	**(1,205)**
Proceeds from sales and redemption of investment securities	**2,645**	9	**23,616**
Payments for investments in capital	**(339)**	(2,821)	**(3,026)**
Payments of recoverable accounts	**(21,380)**	(42,958)	**(190,892)**
Payments of loans receivable	**(24)**	(24)	**(214)**
Collection of loans receivable	**1,082**	5,065	**9,660**
Interest and dividend income received	**5,511**	5,784	**49,205**
Proceeds from dividends of residual property	–	13	–
Proceeds from capital reduction of investments	**3,526**	1,070	**31,482**
Other, net	**250**	(974)	**2,232**
Net cash provided by (used in) investing activities	**(84,686)**	(125,771)	**(756,125)**
Cash provided by (used in) financing activities:			
Increase in short-term loans payable	–	171,394	–
Decrease in short-term loans payable	–	(214,137)	–
Proceeds from long-term loans payable	**20,385**	103,711	**182,008**
Repayments of long-term loans payable	–	(10,392)	–
Cash dividends paid	**(1,716)**	(2,899)	**(15,321)**
Dividends paid to non-controlling interests	**(315)**	(2,156)	**(2,812)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(398)	–
Interest expenses paid	**(896)**	(689)	**(8,000)**
Repayments of lease obligations	**(594)**	(619)	**(5,303)**
Proceeds from share issuance to non-controlling shareholders	**1,498**	11,005	**13,375**
Net cash provided by (used in) financing activities	**18,360**	54,816	**163,928**
Effect of exchange rate change on cash and cash equivalents	**(286)**	(2,791)	**(2,553)**
Net increase (decrease) in cash and cash equivalents	**(22,940)**	(16,086)	**(204,821)**
Cash and cash equivalents at beginning of period	**126,570**	142,657	**1,130,089**
Cash and cash equivalents at end of period (Note 19)	**¥ 103,630**	¥ 126,570	**$ 925,267**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

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 2016 financial statements to conform to the classifications used in 2017.

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 ¥112 = U.S. $1, the approximate rate of exchange at March 31, 2017, 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, 2017 include the accounts of the Company and its 23 (25 in 2016) 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, 2017, 14 (14 in 2016) 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 non-controlling 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 non-controlling interests are translated into yen at their historical exchange rates.

Differences arising from the translation are presented as foreign currency translation adjustment and non-controlling 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 and facilities attached to buildings and structures of certain domestic consolidated subsidiaries acquired on or after April 1, 2016 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 (three in 2016) 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

(Changes in accounting policies)

(Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Pursuant to revisions to the Corporation Tax Act, certain domestic consolidated subsidiaries have applied the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 32, issued on June 17, 2016)” since the consolidated fiscal year ended March 31, 2017 and changed the depreciation method of facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The effects of this change in depreciation method on profit and loss for the consolidated fiscal year ended March 31, 2017 were immaterial.

(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 (one in 2016) 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.

(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 value at disposition.

(11) Provision for directors’ retirement benefits

Consolidated subsidiaries recognize provision for directors’ retirement benefits 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, etc. 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 benefit formula 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 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 and foreign currency deposits

Hedged items: Accounts payable – trade and accounts payable – other

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 profit before income taxes 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 Implementation Guidance on Recoverability of Deferred Tax Assets

The Group has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued on March 28, 2016) since the consolidated fiscal year ended March 31, 2017.

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, 2017 and 2016 was ¥130 million ($1,160 thousand) and ¥421 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, 2017 and 2016 is as follows:

March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥ 120,611**	**¥ 23,997**	**¥ 96,614**	**$ 1,076,883**	**$ 214,258**	**$ 862,625**
Debt securities:						
Corporate bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Other	**2**	**2**	**0**	**17**	**17**	**0**
Subtotal	**120,614**	**23,999**	**96,614**	**1,076,910**	**214,276**	**862,625**
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**21**	**21**	**–**	**187**	**187**	**–**
Debt securities:						
Corporate bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Other	**1,300**	**1,300**	**–**	**11,607**	**11,607**	**–**
Subtotal	**1,321**	**1,321**	**–**	**11,794**	**11,794**	**–**
Total	**¥ 121,935**	**¥ 25,320**	**¥ 96,614**	**$ 1,088,705**	**$ 226,071**	**$ 862,625**

March 31, 2016	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 92,605	¥ 22,552	¥ 70,053
Debt securities:			
Corporate bonds	–	–	–
Other debt securities	–	–	–
Other	1,504	1,503	1
Subtotal	94,110	24,055	70,054
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	1,227	1,474	(246)
Debt securities:			
Corporate bonds	140	141	(1)
Other debt securities	399	400	(0)
Other	23,151	23,151	–
Subtotal	24,919	25,167	(248)
Total	¥ 119,029	¥ 49,223	¥ 69,806

Unlisted equity securities, carrying values of which as of March 31, 2017 and 2016 were ¥2,547 million ($22,741 thousand) and ¥2,988 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, 2017 and 2016 is as follows:

March 31, 2017	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	¥ **588**	¥ **104**	¥ **–**	$ **5,250**	$ **928**	$ **–**
Debt securities:						
Corporate bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Other	**1,485**	**–**	**15**	**13,258**	**–**	**133**
Total	¥ **2,073**	¥ **104**	¥ **15**	$ **18,508**	$ **928**	$ **133**

March 31, 2016	Millions of yen		
	Sales amount	Aggregate gain	Aggregate loss
Available-for-sale securities:			
Equity securities	¥ 9	¥ 0	¥ 1
Debt securities:			
Corporate bonds	–	–	–
Other debt securities	–	–	–
Other	–	–	–
Total	¥ 9	¥ 0	¥ 1

(3) During the year ended March 31, 2016, the Group recorded losses on valuation of available-for-sale securities whose fair value is extremely difficult to determine in the amount of ¥4 million. For this amount, allowance for overseas investment loss was recorded, and there was no impact on profit and loss during the year ended March 31, 2016. During the year ended March 31, 2017, the Group recorded losses on valuation of securities in the amount of ¥10 million ($89 thousand) (loss on valuation of available-for-sale securities with fair value in the amount of ¥8 million ($71 thousand) and loss on valuation of available-for-sale securities whose fair value is extremely difficult to determine in the amount of ¥1 million ($8 thousand)). However, for the ¥1 million ($8 thousand) of available-for-sale securities (unlisted equity securities) whose fair value is extremely difficult to determine, allowance for overseas investment loss was recorded, and there was no impact on profit and loss during the year ended March 31, 2017. 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, 2017 and 2016 were ¥28,081 million ($250,723 thousand) and ¥39,623 million, respectively.

(5) As of March 31, 2017, investment securities of ¥450 million ($4,017 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, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Loans from banks and others			
Unsecured	**¥ 146,391**	¥ 130,030	**$ 1,307,062**
	146,391	130,030	**1,307,062**
Less — current portion	**(4,487)**	–	**(40,062)**
	¥ 141,903	¥ 130,030	**$ 1,266,991**

As of March 31, 2017, the weighted-average interest rate for the long-term loans payable balance was 1.78%.

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2017 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	**¥ 4,487**	**$ 40,062**
2019	**4,787**	**42,741**
2020	**6,187**	**55,241**
2021	**6,989**	**62,401**
2022	**13,165**	**117,544**
2023 and thereafter	**111,499**	**995,526**
Total	**¥147,116**	**$ 1,313,535**

The Company and certain consolidated subsidiaries have entered into overdraft agreements and loan commitment agreements amounting to ¥139,212 million ($1,242,964 thousand) and ¥113,611 million with eight and seven banks at March 31, 2017 and 2016, respectively, to facilitate efficient procurement of working capital. The borrowings outstanding under the overdraft agreements and loan commitment agreements as of March 31, 2017 and 2016 were ¥65,933 million ($588,687 thousand) and ¥57,711 million, respectively, and, therefore, the unused balance was ¥73,279 million ($654,276 thousand) and ¥55,900 million as of March 31, 2017 and 2016, respectively.

Lease obligations included in other in non-current liabilities at March 31, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Lease obligations	**¥ 3,306**	¥ 3,798	**$ 29,517**
Less — current portion	**(564)**	(869)	**(5,035)**
	¥ 2,741	¥ 2,929	**$ 24,473**

The aggregate annual maturities of lease obligations subsequent to March 31, 2017 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	**¥ 564**	**$ 5,035**
2019	**541**	**4,830**
2020	**574**	**5,125**
2021	**397**	**3,544**
2022	**370**	**3,303**
2023 and thereafter	**856**	**7,642**
Total	**¥ 3,306**	**$ 29,517**

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 28.2% and 28.9% for the years ended March 31, 2017 and 2016, respectively. Income taxes of five foreign consolidated subsidiaries (five in 2016) 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, 2017 and 2016 differ from the statutory tax rates for the following reasons:

	2017	2016
Statutory tax rates	**28.2%**	28.9%
Effect of:		
Unrecognized tax effect accounting on net tax loss carried forward of consolidated subsidiaries	**50.5**	31.0
Exploration expenses deducted for income tax purposes	**(6.8)**	(80.8)
Dividends income, etc. not taxable for income tax purposes	**(22.1)**	(20.1)
Utilization of tax loss carried forward	**(23.6)**	–
Expenses not deductible for income tax purposes	**1.4**	108.6
Consolidation adjustment for equity method	**43.3**	(24.7)
Change in valuation allowance	**(10.8)**	322.9
Foreign Tax	**18.9**	44.1
Tax rate difference with consolidated subsidiaries	**5.0**	36.9
Remeasurement of deferred tax assets and deferred tax liabilities at end of period due to the change in tax rate	–	3.2
Tax system differences for foreign consolidated subsidiaries	**(9.2)**	(26.5)
Consolidation adjustment	**(22.9)**	13.9
Other, net	**(0.5)**	(14.0)
Effective tax rates	**51.4%**	423.4%

The significant components of deferred tax assets and liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Allowance for overseas investment loss	**¥ 2,222**	¥ 2,497	**$ 19,839**
Net tax loss carried forward	**8,222**	3,634	**73,410**
Defined benefit liability	**1,044**	1,041	**9,321**
Depreciation	**7,463**	12,796	**66,633**
Payable for directors' retirement benefit	**142**	210	**1,267**
Asset retirement obligations	**4,249**	4,100	**37,937**
Impairment loss on non-current assets	**1,566**	1,566	**13,982**
Other	**13,170**	13,684	**117,589**
Subtotal	**38,081**	39,532	**340,008**
Valuation allowance	**(21,285)**	(22,955)	**(190,044)**
Total deferred tax assets	**16,795**	16,576	**149,955**
Deferred tax liabilities:			
Reserve for exploration	**(7,848)**	(9,235)	**(70,071)**
Valuation difference on available-for-sale securities	**(26,745)**	(19,239)	**(238,794)**
Reserve for advanced depreciation of non-current assets	**(279)**	(82)	**(2,491)**
Undistributed earnings of foreign subsidiaries and associates	**(1,994)**	(3,249)	**(17,803)**
Foreign tax	**(2,054)**	(1,401)	**(18,339)**
Loss on deemed transfer of shares	**(2,054)**	(688)	**(18,339)**
Reserve for special depreciation	**(140)**	(168)	**(1,250)**
Defined benefit asset	**(267)**	(248)	**(2,383)**
Other	**(2,063)**	(2,279)	**(18,419)**
Total deferred tax liabilities	**(43,448)**	(36,593)	**(387,928)**
Net deferred tax liabilities	**¥ (26,652)**	¥ (20,017)	**$ (237,964)**

7. Retirement Benefit Plans

(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 period and the end of period (excluding plans applying the simplified method shown in (c)) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Retirement benefit obligations at beginning of period	**¥ 16,964**	¥ 16,619	**$ 151,464**
Service costs	**998**	974	**8,910**
Interest costs	**148**	145	**1,321**
Actuarial gains and losses arising during period	**78**	100	**696**
Retirement benefits paid	**(1,543)**	(874)	**(13,776)**
Retirement benefit obligations at end of period	**¥ 16,645**	¥ 16,964	**$ 148,616**

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Plan assets at beginning of period	**¥ 15,278**	¥ 14,511	**$ 136,410**
Expected return on plan assets	**152**	145	**1,357**
Actuarial gains and losses arising during period	**251**	(299)	**2,241**
Contribution from employer	**515**	1,446	**4,598**
Retirement benefits paid	**(1,189)**	(524)	**(10,616)**
Plan assets at end of period	**¥ 15,008**	¥ 15,278	**$ 134,000**

(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
	2017	2016	**2017**
Defined benefit liability at beginning of period	**¥ 999**	¥ 963	**$ 8,919**
Retirement benefit expenses	**220**	200	**1,964**
Retirement benefits paid	**(156)**	(75)	**(1,392)**
Contribution to plans	**(83)**	(88)	**(741)**
Defined benefit liability at end of period	**¥ 981**	¥ 999	**$ 8,758**

(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 sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Funded retirement benefit obligations	**¥ 14,054**	¥ 14,389	**$ 125,482**
Plan assets	**(15,008)**	(15,278)	**(134,000)**
	(954)	(888)	**(8,517)**
Unfunded retirement benefit obligations	**3,572**	3,574	**31,892**
Net defined benefit liability (asset) on consolidated balance sheet	**2,618**	2,685	**23,375**
Defined benefit liability	**3,572**	3,574	**31,892**
Defined benefit asset	**(954)**	(888)	**(8,517)**
Net defined benefit liability (asset) on consolidated balance sheet	**¥ 2,618**	¥ 2,685	**$ 23,375**

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Service costs	**¥ 998**	¥ 974	**$ 8,910**
Interest costs	**148**	145	**1,321**
Expected return on plan assets	**(152)**	(145)	**(1,357)**
Amortization of actuarial gains and losses	**301**	64	**2,687**
Amortization of prior service costs	**(103)**	(45)	**(919)**
Retirement benefit expenses calculated by simplified method	**220**	200	**1,964**
Retirement benefit expenses on defined benefit plans	**¥ 1,412**	¥ 1,194	**$ 12,607**

(f) Remeasurements of defined benefit plans recorded under other comprehensive income
The breakdown of items recorded in remeasurements of defined benefit plans, before tax, recorded under other comprehensive income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Prior service costs	**¥ (103)**	¥ (45)	**$ (919)**
Actuarial gains and losses	**474**	(335)	**4,232**
Total	**¥ 370**	¥ (380)	**$ 3,303**

(g) Remeasurements of defined benefit plans recorded under accumulated other comprehensive income
The breakdown of items recorded in remeasurements of defined benefit plans, before tax, recorded under accumulated other comprehensive income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized prior service costs	**¥ 392**	¥ 496	**$ 3,500**
Unrecognized actuarial gains and losses	**330**	(144)	**2,946**
Total	**¥ 722**	¥ 351	**$ 6,446**

(h) Plan assets

(i) Breakdown of plan assets

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

	2017	2016
Debt securities	**55%**	53%
Equity securities	**34%**	34%
Cash and deposits	**3%**	3%
Other	**8%**	10%
Total	**100%**	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.

(i) Actuarial assumptions

The main actuarial assumptions for the years ended March 31, 2017 and 2016 (weighted averages) are as follows:

	2017	2016
Discount rate	**0.9%**	0.9%
Long-term expected rate of return	**1.0%**	1.0%

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

Operating leases

Future minimum lease payments under non-cancelable operating leases subsequent to March 31, 2017 are as follows:

(Lessee)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 162	$ 1,446
2019 and thereafter	474	4,232
Total	¥ 636	$ 5,678

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, etc. of customers on a timely basis in accordance with internal credit management rules.

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 ¥116,994 million ($1,044,589 thousand) and ¥91,233 million as of March 31, 2017 and 2016, the proportions of which to investment securities are 78.9% and 67.4%, respectively.

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

Notes and accounts payable – trade and accounts payable – other are due within one year. Accounts payable - trade relating to LNG and accounts payable – other relating to capital investment are exposed to foreign currency fluctuation 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 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 fluctuation risk. The Group reduces such risk by utilizing foreign exchange forward contracts.

The Group utilizes foreign exchange forward contracts as mentioned above. 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, etc. 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 the difference as of March 31, 2017 and 2016 are as follows. The financial instruments whose fair value is extremely difficult to determine are not included below.

			Millions of yen
March 31, 2017	Carrying value	Fair value	Difference
Cash and deposits	**¥ 109,488**	**¥ 109,488**	**¥ 0**
Notes and accounts receivable - trade	**28,283**	**28,283**	**–**
Short-term loans receivable	**4,348**	**4,348**	**–**
Securities and investment securities	**130,936**	**134,996**	**4,059**
Long-term loans receivable	**11,672**	**11,672**	**–**
Total assets	**¥ 284,728**	**¥ 288,789**	**¥ 4,060**
Notes and accounts payable - trade	**¥ 13,634**	**¥ 13,634**	**¥ –**
Long-term loans payable	**141,903**	**141,918**	**(14)**
Total liabilities	**¥ 155,537**	**¥ 155,552**	**¥ (14)**
Derivative transactions (*)	**¥ (0)**	**¥ (0)**	**¥ –**

			Millions of yen
March 31, 2016	Carrying value	Fair value	Difference
Cash and deposits	¥ 104,359	¥ 104,359	¥ 0
Notes and accounts receivable - trade	24,642	24,642	–
Short-term loans receivable	28	28	–
Securities and investment securities	133,741	132,160	(1,581)
Long-term loans receivable	16,522	16,522	–
Total assets	¥ 279,293	¥ 277,712	¥ (1,581)
Notes and accounts payable - trade	¥ 8,585	¥ 8,585	¥ –
Long-term loans payable	130,030	130,071	(41)
Total liabilities	¥ 138,615	¥ 138,657	¥ (41)
Derivative transactions (*)	¥ (2)	¥ (2)	¥ –

March 31, 2017	Carrying value	Fair value	Difference
	Thousands of U.S. dollars		
Cash and deposits	**$ 977,571**	**$ 977,571**	**$ 0**
Notes and accounts receivable - trade	**252,526**	**252,526**	**–**
Short-term loans receivable	**38,821**	**38,821**	**–**
Securities and investment securities	**1,169,071**	**1,205,321**	**36,241**
Long-term loans receivable	**104,214**	**104,214**	**–**
Total assets	**$ 2,542,214**	**$ 2,578,473**	**$ 36,250**
Notes and accounts payable - trade	**$ 121,732**	**$ 121,732**	**$ –**
Long-term loans payable	**1,266,991**	**1,267,125**	**(125)**
Total liabilities	**$ 1,388,723**	**$ 1,388,857**	**$ (125)**
Derivative transactions (*)	**$ (0)**	**$ (0)**	**$ –**

(*) Net assets and liabilities arising from derivative transactions are presented on a net basis, and the liability position is shown in parenthesis.

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.

Liabilities

- **Notes and accounts payable - trade**

The carrying value is deemed as the fair value since they 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 Company 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
	2017	2016	**2017**
Carrying value:			
Unlisted equity securities	**¥ 18,603**	¥ 25,070	**$ 166,098**

The above securities are not included in securities and investment securities in the tables 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, 2017	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	**¥ 109,487**	**¥ –**	**¥ –**	**¥ –**
Notes and accounts receivable - trade	**28,283**	**–**	**–**	**–**
Short-term loans receivable	**4,348**	**–**	**–**	**–**
Securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	**–**	**500**	**–**	**–**
Debt securities:				
Corporate bonds	**–**	**–**	**–**	**–**
Other debt securities	**–**	**–**	**–**	**–**
Other	**2**	**–**	**–**	**–**
Long-term loans receivable	**–**	**11,667**	**4**	**–**
Total	**¥ 142,121**	**¥ 12,167**	**¥ 4**	**¥ –**

				Millions of yen
March 31, 2016	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	¥ 104,358	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	24,642	–	–	–
Short-term loans receivable	28	–	–	–
Securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	–	500	–	–
Debt securities:				
Corporate bonds	–	–	140	–
Other debt securities	400	–	–	–
Other	–	3	–	–
Long-term loans receivable	–	16,518	4	–
Total	¥ 129,428	¥ 17,021	¥ 144	¥ –

				Thousands of U.S. dollars
March 31, 2017	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	**$ 977,562**	**$ –**	**$ –**	**$ –**
Notes and accounts receivable - trade	**252,526**	**–**	**–**	**–**
Short-term loans receivable	**38,821**	**–**	**–**	**–**
Securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	**–**	**4,464**	**–**	**–**
Debt securities:				
Corporate bonds	**–**	**–**	**–**	**–**
Other debt securities	**–**	**–**	**–**	**–**
Other	**17**	**–**	**–**	**–**
Long-term loans receivable	**–**	**104,169**	**35**	**–**
Total	**$ 1,268,937**	**$ 108,633**	**$ 35**	**$ –**

(4) Scheduled maturities of long-term loans payable

				Millions of yen
March 31, 2017	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Long-term loans payable	**¥ –**	**¥ 31,129**	**¥ 65,826**	**¥ 45,672**
Total	**¥ –**	**¥ 31,129**	**¥ 65,826**	**¥ 45,672**

				Thousands of U.S. dollars
March 31, 2017	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Long-term loans payable	**$ –**	**$ 277,937**	**$ 587,732**	**$ 407,785**
Total	**$ –**	**$ 277,937**	**$ 587,732**	**$ 407,785**

11. Derivative Transactions

The Group utilizes derivative transactions for the purpose of hedging its risks to adverse fluctuations in foreign currency exchange rates 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

Currency related

	Millions of yen				Thousands of U.S. dollars			
March 31, 2017	Contract amount, etc.	Due after one year	Fair value (*)	Unrealized gain (loss)	Contract amount, etc.	Due after one year	Fair value (*)	Unrealized gain (loss)
Foreign exchange forward contracts								
U.S. dollars (Buying)	**¥ 2**	**¥ –**	**¥ (0)**	**¥ (0)**	**$ 17**	**$ –**	**$ (0)**	**$ (0)**
Total	**¥ 2**	**¥ –**	**¥ (0)**	**¥ (0)**	**$ 17**	**$ –**	**$ (0)**	**$ (0)**

No currency related derivative contract was outstanding as of March 31, 2016.

(*) Fair value is measured based on quotes, etc. provided by financial institutions, etc.

(2) Derivative transactions for which hedge accounting is applied

Currency related

	Millions of yen			Thousands of U.S. dollars		
March 31, 2017	Contract amount, etc.	Due after one year	Fair value (*)	Contract amount, etc.	Due after one year	Fair value (*)
Deferral hedge accounting						
Foreign exchange forward contracts						
U.S. dollars (Buying)	**¥ 10**	**¥ –**	**¥ (0)**	**$ 89**	**$ –**	**$ (0)**
British pound (Buying)	**29**	**–**	**0**	**258**	**–**	**0**
Allocation method						
Foreign exchange forward contracts						
U.S. dollars (Buying)	**368**	**–**	**(16)**	**3,285**	**–**	**(142)**
Total	**¥ 409**	**¥ –**	**¥ (16)**	**$ 3,651**	**$ –**	**$ (142)**

	Millions of yen		
March 31, 2016	Contract amount, etc.	Due after one year	Fair value (*)
Deferral hedge accounting			
Foreign exchange forward contracts			
U.S. dollars (Buying)	¥ 843	¥ –	¥ (2)
British pound (Buying)	34	–	0
Total	¥ 878	¥ –	¥ (2)

(*) Fair value is measured based on quotes, etc. provided by financial institutions, etc.

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, etc. 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 41 years (2 to 35 years in 2016) 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 (0.217) to 2.287% ((0.217) to 2.287% in 2016) for domestic obligations and 2.31 to 7.0% (1.7 to 7.0% in 2016) for overseas.

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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of period	**¥ 18,330**	¥ 17,982	**$ 163,660**
Increase due to acquisition of new assets	**354**	519	**3,160**
Accretion	**455**	464	**4,062**
Settlement	**(148)**	(830)	**(1,321)**
Foreign currency translation adjustment	**(41)**	(963)	**(366)**
Other changes, net (*)	**209**	1,158	**1,866**
Balance at end of period	**¥ 19,160**	¥ 18,330	**$ 171,071**

(*) Other changes, net, are related to the estimation changed for costs of decommissioning oil and natural gas wells and production facilities.

(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, etc. 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, 2017 and 2016.

The following table summarizes the details of balance of asset retirement obligations for the year ended March 31, 2017.

				Millions of yen
March 31, 2017	At beginning of period	Increase	Decrease	At end of period
Under provisions of Petroleum and Inflammable Natural Gas Resources Development Law	¥ **8,527**	¥ **143**	¥ **94**	¥ **8,575**
Under provisions of Environmental Protection and Enhancement Act, etc. enforced in the Province of Alberta, Canada	**5,529**	**612**	**166**	**5,974**
Under provisions of Act on Prevention of Marine Pollution and Maritime Disaster	**2,149**	**47**	**–**	**2,196**
Under provisions of land lease contracts and other	**2,124**	**312**	**24**	**2,413**
Total	¥ **18,330**	¥ **1,115**	¥ **285**	¥ **19,160**

				Thousands of U.S. dollars
March 31, 2017	At beginning of period	Increase	Decrease	At end of period
Under provisions of Petroleum and Inflammable Natural Gas Resources Development Law	$ **76,133**	$ **1,276**	$ **839**	$ **76,562**
Under provisions of Environmental Protection and Enhancement Act, etc. enforced in the Province of Alberta, Canada	**49,366**	**5,464**	**1,482**	**53,339**
Under provisions of Act on Prevention of Marine Pollution and Maritime Disaster	**19,187**	**419**	**–**	**19,607**
Under provisions of land lease contracts and other	**18,964**	**2,785**	**214**	**21,544**
Total	$ **163,660**	$ **9,955**	$ **2,544**	$ **171,071**

13. Contingent Liabilities

At March 31, 2017 and 2016, the Group had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Guarantee obligation for loans payable from financial institutions, etc.:			
INPEX North Caspian Sea, Ltd.	¥ **11,045**	¥ 12,025	$ **98,616**
Sakhalin Oil and Gas Development Co., Ltd.	**5,144**	4,837	**45,928**
Employees (Housing loans)	**215**	276	**1,919**
Kumamoto Mirai LNG Co., Ltd.	**64**	70	**571**
Guarantee obligation relating to production facilities:			
Kangean Energy Indonesia Ltd.	**6,272**	8,961	**56,000**
Total	¥ **22,741**	¥ 26,171	$ **203,044**

14. Information Related to Consolidated Statement of Changes in Equity

(1) Dividends paid to shareholders

2017

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 24, 2016	Annual General Meeting of Shareholders	Common stock	**¥ 1,428**	**$ 12,750**	**¥ 25**	**$ 0.22**	March 31, 2016	June 27, 2016
November 8, 2016	Board of Directors	Common stock	**¥ 285**	**$ 2,544**	**¥ 5**	**$ 0.04**	September 30, 2016	December 13, 2016

2016

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 24, 2015	Annual General Meeting of Shareholders	Common stock	¥ 1,428	¥ 25	March 31, 2015	June 25, 2015
November 6, 2015	Board of Directors	Common stock	¥ 1,428	¥ 25	September 30, 2015	December 2, 2015

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

2017

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 28, 2017	Annual General Meeting of Shareholders	Common stock	**¥ 571**	**$ 5,098**	Retained earnings	**¥ 10**	**$ 0.08**	March 31, 2017	June 29, 2017

2016

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 24, 2016	Annual General Meeting of Shareholders	Common stock	¥ 1,428	Retained earnings	¥ 25	March 31, 2016	June 27, 2016

15. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Selling, general and administrative expenses:			
Personnel expenses	**¥11,868**	¥11,685	**$105,964**
Significant components of personnel expenses:			
Retirement benefit expenses	**784**	630	**7,000**
Provision for directors' bonuses	**23**	67	**205**
Provision for directors' retirement benefits	**21**	44	**187**
Freightage expenses	**4,454**	4,511	**39,767**
Subcontract expenses	**2,561**	2,334	**22,866**
Depreciation	**4,151**	4,381	**37,062**

Research and development expenses included in general and administrative expenses for the years ended March 31, 2017 and 2016 were ¥244 million ($2,178 thousand) and ¥152 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, 2016, the Group recorded an impairment loss on the following asset groups:

	Millions of yen	
	2016	
Idle asset:		
Oga City, Akita, Japan		
Construction in progress	¥	844
Other in Property, plant and equipment, and others		1,535
Total	¥	2,380
Development assets related to the mining area Block A:		
Aceh, Indonesia		
Other in Investments and other assets	¥	389
Total	¥	389
Business-use assets related to Yufutsu LPG plant:		
Tomakomai City, Hokkaido, Japan		
Machinery, equipment and vehicles	¥	154
Buildings and structures, etc.		160
Total	¥	314

The idle assets relate to the production well in Sarukawa oil field, which has not achieved the production level initially expected. The carrying value was reduced to the recoverable amount, as there currently is no specific utilization plan for the assets as a result of the review of the future production plan. The reduction in the carrying value was recorded as impairment loss in other expenses.

The recoverable amount of the asset group was measured at the net selling value. The carrying value is recorded at its memorandum value.

For the development assets related to the mining area Block A in Aceh, Indonesia, the carrying value of the development assets was reduced to the recoverable amount as a result of the re-calculation of future cash flows responding to the change of the business situation of the Block A mining area, and the reduction was recorded as impairment loss in other expenses.

The recoverable amount of the asset group was measured at the net selling value and assessed by using reasonably calculated future cash flows.

For the business-use assets related to Yufutsu LPG plant, the carrying value of the business-use assets was reduced to the recoverable amount as a result of the re-calculation of future cash flows responding to the re-examination of the prices of liquefied petroleum gas products affected by decline of crude oil prices, and the reduction was recorded as impairment loss in other expenses.

The recoverable amount of the asset group was measured at value in use. As the value in use resulted in a negative cash flow, the carrying amount is recorded at its memorandum value.

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, 2017 and 2016 and related balances are as follows.

Transactions:	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Purchase of crude oil (*1)	**¥ 40,391**	¥ 33,037	**$360,633**

Balances:	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Accounts payable - trade	**¥ 4,334**	¥ 3,192	**$ 38,696**

Principal transactions between the Company and Kangean Energy Indonesia Ltd., the associate accounted for using the equity method, for the years ended March 31, 2017 and 2016 and related balances are as follows:

Transactions:	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Collection of loans (*2)	**¥ 314**	¥ 2,935	**$ 2,803**
Guarantee of obligation (*3)	**¥ –**	¥ 8,961	**$ –**

Balances:	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Short-term loans receivable	**¥ 2,593**	¥ –	**$ 23,151**
Long-term loans receivable	**¥ 6,667**	¥ 9,249	**$ 59,526**

(*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 determines the reasonable interest rates of loans receivable from Kangean Energy Indonesia Ltd. based on the market interest rates.

(*3) 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, 2017 and 2016, the summarized consolidated financial information of all associates accounted for using the equity method (14 companies in 2017 and 2016), including a significant associate, Japan Drilling Co., Ltd. is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Total current assets	**¥ 176,627**	¥ 166,170	**$1,577,026**
Total non-current assets	**112,845**	164,289	**1,007,544**
Total current liabilities	**54,189**	67,636	**483,830**
Total non-current liabilities	**134,077**	133,630	**1,197,116**
Total net assets	**101,206**	129,194	**903,625**
Net sales	**203,709**	240,394	**1,818,830**
Profit before income taxes	**12,198**	39,042	**108,910**
Profit (loss)	**(3,227)**	12,898	**(28,812)**

18. Amounts per Share

Basic earnings per share is computed based on the profit attributable to common shareholders of parent 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, 2017 and 2016.

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
	2017	2016	**2017**
Basic earnings per share	**¥ 60.24**	¥ 36.58	**$ 0.53**
Net assets per share	**7,655.26**	7,366.40	**68.35**

Diluted earnings per share is not disclosed due to the absence of dilutive shares for the years ended March 31, 2017 and 2016.

19. Cash Flow Information

Reconciliations between cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2017 and 2016 and cash and deposits in the consolidated balance sheets as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash and deposits	**¥ 109,488**	¥ 104,359	**$ 977,571**
Time deposits with maturities in excess of three months	**(7,157)**	(939)	**(63,901)**
Short-term investments with maturities of three months or less, etc.:			
Money management fund and other	**1,300**	23,151	**11,607**
Cash and cash equivalents	**¥ 103,630**	¥ 126,570	**$ 925,267**

As of March 31, 2017 and 2016, cash and deposit of ¥58 million ($517 thousand) and ¥829 million, respectively, were restricted by a bank that issued bank guarantees for subsidiaries and associates.

20. Other Comprehensive Income

Reclassification adjustments and income tax benefit (expense) on components of other comprehensive income for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	**¥ 26,895**	¥ (50,861)	**$ 240,133**
Reclassification adjustments	**(87)**	(2)	**(776)**
Pre-tax amount	**26,808**	(50,864)	**239,357**
Income tax benefit (expense)	**(7,506)**	15,257	**(67,017)**
Valuation difference on available-for-sale securities	**19,302**	(35,606)	**172,339**
Deferred gains or losses on hedges:			
Gains (losses) arising during the year	**(244)**	0	**(2,178)**
Pre-tax amount	**(244)**	0	**(2,178)**
Income tax benefit (expense)	**(0)**	(0)	**(0)**
Deferred gains or losses on hedges	**(244)**	0	**(2,178)**
Foreign currency translation adjustment:			
Gains (losses) arising during the year	**(4,283)**	(9,752)	**(38,241)**
Remeasurements of defined benefit plans:			
Gains (losses) arising during the year	**172**	(400)	**1,535**
Reclassification adjustments	**198**	19	**1,767**
Pre-tax amount	**370**	(380)	**3,303**
Income tax benefit (expense)	**(103)**	112	**(919)**
Remeasurements of defined benefit plans	**267**	(267)	**2,383**
Share of other comprehensive income of entities accounted for using equity method:			
Gains (losses) arising during the year	**(569)**	(416)	**(5,080)**
Reclassification adjustments	**271**	–	**2,419**
Share of other comprehensive income of entities accounted for using equity method	**(297)**	(416)	**(2,651)**
Changes in equity interest:			
Gains (losses) arising during the year	**(2,103)**	–	**(18,776)**
Total other comprehensive income	**¥ 12,640**	¥ (46,043)	**$ 112,857**

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," "Europe" 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.

"Europe" is engaged in exploration of crude oil and natural gas in Europe.

"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 net 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 profit. 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, 2017	Reporting segment: Japan	North America	Europe	Middle East	Total	Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales:									
Sales to third parties	¥ 199,505	¥ 5,688	¥ –	¥ 1,936	¥ 207,130	¥ –	¥ 207,130	¥ –	¥ 207,130
Intersegment sales and transfers	0	–	–	25,242	25,242	–	25,242	(25,242)	–
Total sales	199,505	5,688	–	27,179	232,373	–	232,373	(25,242)	207,130
Segment profit (loss)	20,525	(8,620)	(268)	(1,120)	10,515	(57)	10,458	(9,773)	685
Segment assets	93,634	287,369	4,103	24,054	409,162	–	409,162	337,576	746,739
Other items:									
Depreciation and amortization	9,160	5,751	2	293	15,207	–	15,207	482	15,690
Share of profit (loss) of entities accounted for using equity method	(6,972)	(125)	–	(2)	(7,099)	2,939	(4,160)	(95)	(4,255)
Investments in entities accounted for using the equity method	771	3,943	–	286	5,001	24,412	29,413	0	29,413
Increase in property, plant and equipment and intangible assets	28,678	39,840	2	–	68,520	–	68,520	(134)	68,385

Millions of yen

March 31, 2016	Reporting segment: Japan	North America	Europe	Middle East	Total	Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales:									
Sales to third parties	¥ 228,373	¥ 10,008	¥ –	¥ 1,920	¥ 240,302	¥ –	¥ 240,302	¥ –	¥ 240,302
Intersegment sales and transfers	0	–	–	44,596	44,596	–	44,596	(44,596)	–
Total sales	228,373	10,008	–	46,516	284,898	–	284,898	(44,596)	240,302
Segment profit (loss)	24,970	(6,812)	(3,905)	4,486	18,738	(110)	18,628	(10,291)	8,336
Segment assets	73,142	258,682	5,145	28,703	365,673	–	365,673	341,927	707,601
Other items:									
Depreciation and amortization	9,953	6,320	2	293	16,569	–	16,569	508	17,078
Share of profit (loss) of entities accounted for using equity method	(1,195)	(176)	–	(2)	(1,374)	3,004	1,629	(4)	1,624
Investments in entities accounted for using the equity method	771	3,603	–	717	5,092	28,327	33,420	0	33,420
Increase in property, plant and equipment and intangible assets	9,815	70,535	3,591	–	83,942	–	83,942	272	84,214

March 31, 2017	Japan	North America	Europe	Middle East	Total	Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
	Thousands of U.S. dollars								
	Reporting segment								
Net sales:									
Sales to third parties	**$1,781,294**	**$ 50,785**	**$ –**	**$ 17,285**	**$1,849,375**	**$ –**	**$ 1,849,375**	**$ –**	**$ 1,849,375**
Intersegment sales and transfers	**0**	**–**	**–**	**225,375**	**225,375**	**–**	**225,375**	**(225,375)**	**–**
Total sales	**1,781,294**	**50,785**	**–**	**242,669**	**2,074,758**	**–**	**2,074,758**	**(225,375)**	**1,849,375**
Segment profit (loss)	**183,258**	**(76,964)**	**(2,392)**	**(10,000)**	**93,883**	**(508)**	**93,375**	**(87,258)**	**6,116**
Segment assets	**836,017**	**2,565,794**	**36,633**	**214,767**	**3,653,232**	**–**	**3,653,232**	**3,014,071**	**6,667,312**
Other items:									
Depreciation and amortization	**81,785**	**51,348**	**17**	**2,616**	**135,776**	**–**	**135,776**	**4,303**	**140,089**
Share of profit (loss) of entities accounted for using equity method	**(62,250)**	**(1,116)**	**–**	**(17)**	**(63,383)**	**26,241**	**(37,142)**	**(848)**	**(37,991)**
Investments in entities accounted for using the equity method	**6,883**	**35,205**	**–**	**2,553**	**44,651**	**217,964**	**262,616**	**0**	**262,616**
Increase in property, plant and equipment and intangible assets	**256,053**	**355,714**	**17**	**–**	**611,785**	**–**	**611,785**	**(1,196)**	**610,580**

Note 1: "Other" which does not belong to reporting segments includes the Southeast Asia, etc.

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

(a) Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Intersegment elimination	**¥ 1**	¥ 1	**$ 8**
Corporate expense (*)	**(9,775)**	(10,293)	**(87,276)**
Total	**¥ (9,773)**	¥ (10,291)	**$ (87,258)**

(*) "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
	2017	2016	**2017**
Intersegment elimination	**¥ (453)**	¥ (202)	**$ (4,044)**
Corporate assets (*1)	**3,894**	5,127	**34,767**
Other assets (*2)	**334,135**	337,002	**2,983,348**
Total	**¥ 337,576**	¥ 341,927	**$ 3,014,071**

(*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 assets other than recoverable accounts, which are not allocated to reporting segments.

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

(4) Related information

(a) Information by product and service

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Sales to third parties			
Crude oil	¥ **81,428**	¥ 98,023	$ **727,035**
Natural gas	**55,329**	68,469	**494,008**
LNG	**20,278**	17,715	**181,053**
Bitumen	**669**	4,894	**5,973**
Contract services	**10,354**	9,797	**92,446**
Oil products/merchandise	**33,354**	32,609	**297,803**
Other	**5,715**	8,792	**51,026**
Total	¥ **207,130**	¥ 240,302	$ **1,849,375**

(b) Information by geographical area

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net sales:			
Japan	¥ **132,919**	¥ 149,516	$ **1,186,776**
Canada	**5,219**	9,005	**46,598**
Russia	**40,437**	33,077	**361,044**
Iraq	**27,215**	46,575	**242,991**
Other	**1,338**	2,126	**11,946**
Total	¥ **207,130**	¥ 240,302	$ **1,849,375**

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
	2017	2016	**2017**
Property, plant and equipment:			
Japan	¥ **95,985**	¥ 76,532	$ **857,008**
Canada	**281,332**	251,788	**2,511,892**
Other	**6,472**	7,897	**57,785**
Total	¥ **383,790**	¥ 336,218	$ **3,426,696**

(c) Information by major customer

		Millions of yen		Thousands of U.S. dollars
	Segment	**2017**	2016	**2017**
Net sales:				
BP Singapore Pte. Ltd.	Japan	¥ **25,527**	¥ 39,954	$ **227,919**

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

	Millions of yen						
	Reporting segment				Other	Corporate/ eliminations	Total
March 31, 2017	Japan	North America	Europe	Middle East			
Impairment loss	**¥ 62**	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥ 62**

	Millions of yen						
	Reporting segment				Other (*)	Corporate/ eliminations	Total
March 31, 2016	Japan	North America	Europe	Middle East			
Impairment loss	¥ 2,708	¥ –	¥ –	¥ –	¥ 389	¥ –	¥ 3,098

	Thousands of U.S. dollars						
	Reporting segment				Other	Corporate/ eliminations	Total
March 31, 2017	Japan	North America	Europe	Middle East			
Impairment loss	**$ 553**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 553**

(*) The amount of "Other" is related to the business in Southeast Asia.

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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, 2017, and the consolidated statements of income, comprehensive income, changes in equity, 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, 2017, 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 L.L.C.

June 28, 2017
Tokyo, Japan

Japan Petroleum Exploration Co., Ltd.

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