Japan Petroleum Exploration Co., Ltd.
For the Year Ended March 31, 2013

Annual Report 2013

Corporate Guide

Corporate Vision

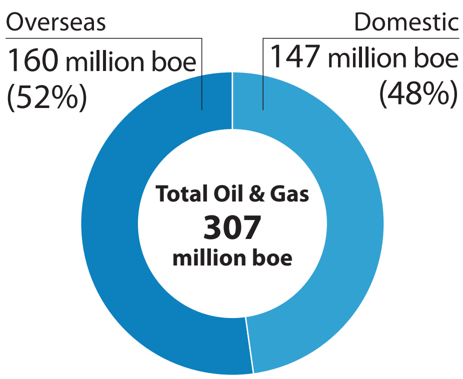
JAPEX is committed to contributing to local communities through a stable supply of energy. To this end, we will undertake the following activities:

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

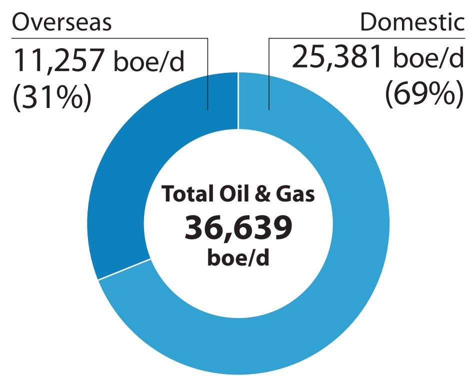
Profile

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

Proved Reserves (End of March 2013)



Daily Production (Fiscal year 2013)



*1 Crude oil includes bitumen (extra-heavy crude oil extracted from oil sands).
boe: barrels of oil equivalent
boe/d: barrels of oil equivalent per day
*2 The above production and reserves volumes are equivalent to the JAPEX Group's economic interest.

Contents

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

Oil and Natural Gas Business

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

Acquisition of Acreage (Upstream)

- Gathering of Information
- Preliminary Survey
- Acquisition of Acreage

JAPEX and its overseas offices are continually gathering various kinds of information through such methods as the use of specialist databases and information services that identify promising conditions as well as scout meetings for the purpose of information exchange about oil company interests.

Before investing, we perform technical evaluations based on literature and purchased materials and conduct preliminary surveys of the area, taking into account legal aspects, political and economic stability and geographical conditions. We also check the operation's economic performance and level of funds and consider strategies to diversify risk through the selection of partners.

The acquisition of acreage is achieved through international bidding and negotiation, and it is important to examine eligibility for investment through the steady application of due diligence* within a specified time period.

* Due diligence: Detailed examination and analysis of price, earning power, risks and other factors in order to determine eligibility for investment

Exploration (Upstream)

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

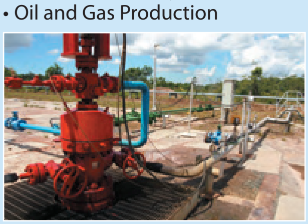
Exploration for oil and natural gas deposits begins with field geological surveys. Geologists head out to gather information on the geological features of each field and collect sedimentary rocks and other samples. They then analyze the properties of these samples, including fossils and oil and natural gas source rocks, as well as of reservoirs.

Geophysical surveys involve probing underground features using physical techniques. One of the most effective methods is seismic surveys. Seismic surveys induce artificial seismic vibrations onshore and offshore to measure reflected waves from subsurface structures. Seismic acquisition data are processed and evaluated to determine the geological structure.

The next step is to drill an exploration well to search for oil and gas deposits at a site deemed promising based on evaluations of geological and geophysical surveys. If exploratory drilling leads to the discovery of oil or gas, additional wells are drilled in surrounding areas to evaluate and determine the structure and size of the field based on its shape, potential productivity and other factors. After determining the level of reserves and scale, a final decision is made with respect to commercial production by taking into consideration a wide range of factors.

Development and Production (Upstream)

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



If oil and gas fields are shown to have commercial-scale reserves based on an evaluation of information gathered from the exploration and appraisal wells, production wells are drilled after carefully formulating the appropriate front-end engineering and design (FEED) and various facilities for processing, storing and transporting the oil and natural gas are constructed prior to the start of production.

In the production phase, the operator uses a separator to separate the oil and natural gas from the fluid stream produced by production wells and regulates oil and gas pressure, among other tasks. Natural gas is produced while carefully monitoring supply-demand dynamics in order to match supplies with demand from customers, whose natural gas usage varies significantly depending on the time and season. The crude oil produced is stored in tanks within the production facility.

Transportation, Supply and Sales (Midstream, Downstream)

- Transportation and Supply
- Sales of Gas and Oil

The natural gas produced in Japan and overseas is supplied and sold to electric power companies and industrial users via pipelines. Furthermore, JAPEX supplies and sells liquefied natural gas (LNG) to local distribution companies (LDCs) using the Company's pipelines as well as via its LNG Satellite System, which uses tank trucks and railway tank containers.

Crude oil produced in Japan and overseas is supplied and sold to petroleum refiners and other customers via ocean shipment using oil tankers and overland using tank trucks and pipelines.

Financial Highlights

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

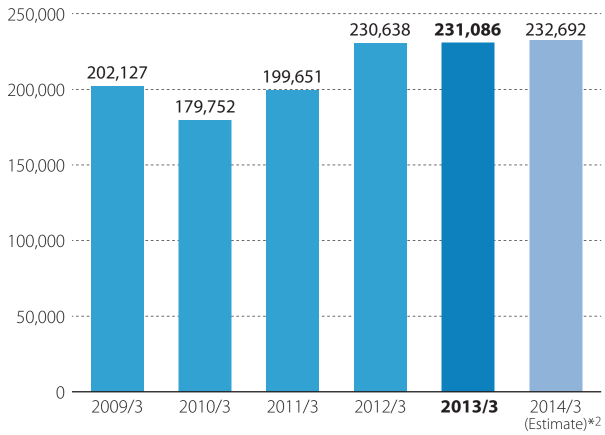
	Reference					Millions of yen	Thousands of U.S. dollars*1
	2014	**2013**	2012	2011	2010	2009	**2013**
For the Year:	(Estimate)*2						
Net sales	¥232,692	**¥ 231,086**	¥ 230,638	¥ 199,651	¥ 179,752	¥ 202,127	**$2,458,361**
Cost of sales	171,721	**172,075**	174,359	144,919	125,467	134,447	**1,830,585**
Exploration expenses	9,184	**13,086**	7,805	9,798	10,396	15,352	**139,212**
Selling, general and administrative expenses	32,066	**32,017**	33,426	31,084	30,769	32,237	**340,606**
Operating income	20,722	**13,906**	15,045	13,849	13,119	20,090	**147,936**
Net income (loss)	21,511	**(865)***3	17,027	10,010	17,939	12,560	**(9,202)***3
At Year-End:							
Total assets	—	**¥ 525,172**	¥ 532,890	¥ 516,098	¥ 521,009	¥ 500,444	**$5,586,936**
Net assets	—	**403,625**	406,773	393,689	398,747	378,227	**4,293,882**
Long-term loans payable	—	**24,197**	26,198	26,898	24,471	25,325	**257,414**
						Yen	U.S. dollars*1
Per Share Data:							
Net assets per share	—	**¥6,691.58**	¥6,869.27	¥6,743.83	¥6,839.05	¥6,486.85	**$71.18**
Net income (loss) per share	376.39	**(15.14)**	297.92	175.16	313.88	219.77	**(0.16)**
Cash dividends per share (full-year)	50.00	**40.00**	40.00	40.00	40.00	40.00	**0.42**
Other Data:							
Number of employees	—	**1,747**	1,743	1,728	1,735	1,678	**1,747**

*1. Exchange rate: ¥94/U.S.$1, the approximate rate of exchange at March 29, 2013.
*2. "Estimates" on pages 3 and 4 are based on JAPEX's announcement of May 10, 2013.
*3. In fiscal year 2013, JAPEX recorded an impairment loss on business assets related to the Yufutsu oil and gas field in Hokkaido.

Disclaimer
Statements made in this annual report with respect to Japan Petroleum Exploration Co., Ltd.'s (JAPEX) plans, estimates, strategies and other statements that are not historical facts are forward-looking statements about the future performance of JAPEX. These statements are based on management's assumptions and beliefs in light of information currently available. As such, these projections entail risks and uncertainties. Readers should be aware that actual results and events may differ substantially from these projections. Risks and uncertainties that may affect JAPEX include, but are not limited to, economic conditions in Japan, fluctuations in crude oil prices and exchange rates, rapid developments in technology, deregulation and other contingencies.

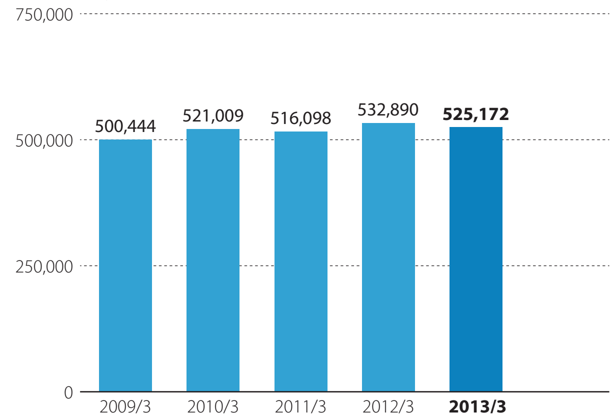
Net sales

(Millions of yen)



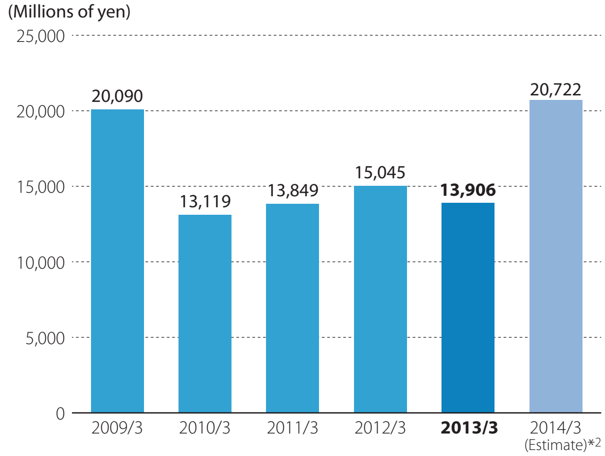
Total assets

(Millions of yen)



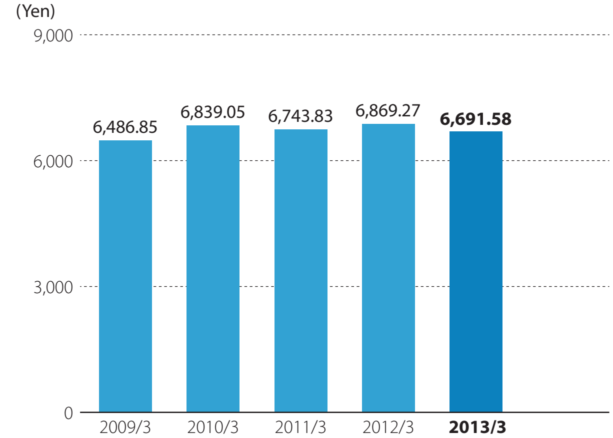
Operating income

(Millions of yen)



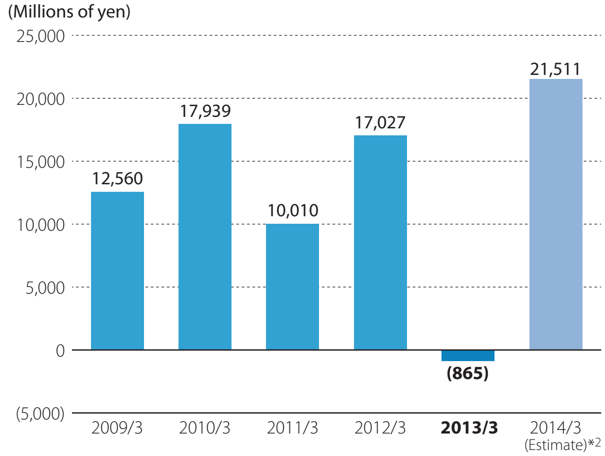
Net assets per share

(Yen)



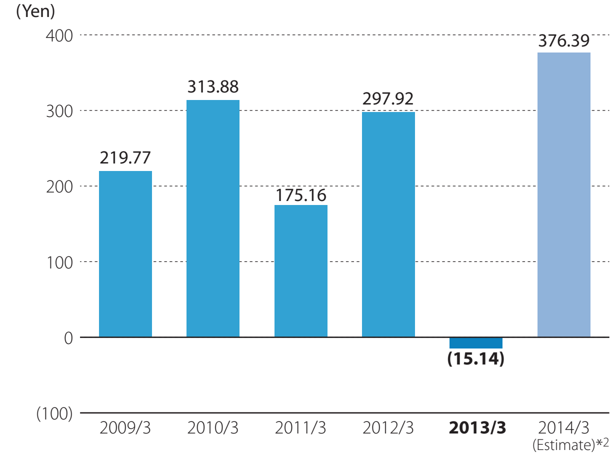
Net income (loss)

(Millions of yen)



Net income (loss) per share

(Yen)



To Our Shareholders and Investors

Osamu Watanabe
President & Chief Executive Officer

Business Circumstances and Operating Performance in Fiscal Year 2013

Business Circumstances

In the fiscal year ended March 31, 2013, the Japanese economy showed signs of recovery through the summer on reconstruction-related demand from the Great East Japan Earthquake. The economy weakened later in the year as exports and production declined with the slowdown in the global economy, but conditions gradually improved at the end of the fiscal year.

The Japan Crude Cocktail (JCC) price*[1] was at a high $120 per barrel at the beginning of fiscal year 2013, but fell to the $100 level in July. The price then rose again to around $115 dollars per barrel, gently settling at just over $110 per barrel.

The foreign currency exchange rate remained at around ¥80 to the dollar at the beginning of fiscal year 2013, but in December the yen weakened markedly, rising to the higher ¥90s range to the dollar at the end of the fiscal year. As a result, the JAPEX Group's average crude oil sales price rose slightly compared with the previous fiscal year.

*1. The average price of customs-cleared crude oil imports into Japan, including the cost of insurance and freight.

For natural gas, demand for liquefied natural gas (LNG) as a fuel for electricity generation has risen in the wake of the Great East Japan Earthquake. Under such conditions, procurement of natural gas for other industrial use and consumer use has been difficult, particularly in terms of price. Further, considering the continued development of the supply infrastructure, the market environment for the JAPEX Group remains unpredictable.

Operating Performance

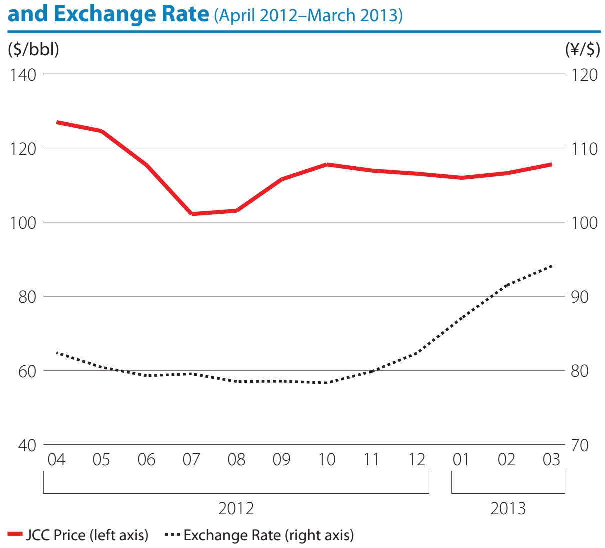
Given this environment, the JAPEX Group endeavored to secure production and transportation, and focused on efficient E&P in Japan and overseas with the aim of achieving a stable, long-term supply of energy essential for daily life.

Net sales for the fiscal year ended March 2013 amounted to ¥231.0 billion, an increase of ¥0.4 billion from the previous fiscal year. Operating income declined ¥1.1 billion to ¥13.9 billion as a result of an increase in exploration expenses both in Japan and overseas.

However, JAPEX recorded an extraordinary loss in fiscal year 2013 of ¥37.0 billion for an impairment loss*[2] on business assets related to the Yufutsu gas field in Hokkaido. This ultimately resulted in a decline in net income of ¥17.8 billion from the previous fiscal year, and JAPEX posted a net loss of ¥0.8 billion for the period.

*2. Please refer to the news release of October 26, 2012.

Trends in the Japan Crude Cocktail (JCC) Price and Exchange Rate (April 2012–March 2013)



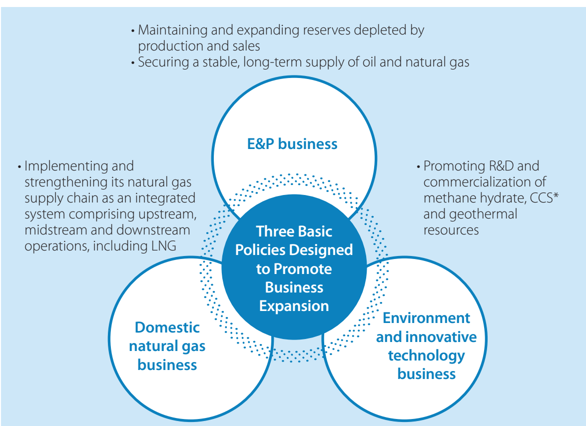
(Millions of Yen)

	2012/3	2013/3	Change
Net sales	230,638	**231,086**	0.2%
Operating income	15,045	**13,906**	(7.6%)
Net income (loss)	17,027	**(865)**	—
Net assets	406,773	**403,625**	(0.8%)
Total assets	532,890	**525,172**	(1.4%)
Equity ratio	73.7%	**72.8%**	—

Progress Under the Medium-Term Business Plan

In May 2011, the JAPEX Group announced a Medium-Term Business Plan*3, covering the five years from fiscal year 2012 through fiscal year 2016. The plan called for business expansion by the three policies of E&P business*4, domestic natural gas business, and the environment and innovative technology business, and we have been steadily moving forward with these.

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



*CCS: Carbon dioxide Capture and Storage.

In the E&P business, which is the first basic policy, we plan to increase production volume and proved reserves by shifting exploration and development investment overseas. Overseas, for the TSB gas field in the Kangean block area of Indonesia, commercial production of natural gas began at the end of May 2012. For the Oil Sands Expansion Project in Canada, in December 2012 we decided to invest in development to expand production, currently at 6,000–7,000 b/d, to a maximum of 30,000 b/d. Also in Canada, we newly acquired shale gas interests in British Columbia, and are aiming to export LNG to Japan by the end of 2018. At the Garraf oil field in Iraq, we began production of crude oil on August 31, 2013 (local time).

In Japan, we drilled prospect wells at the Yufutsu oil and gas field in Hokkaido and the Katakai gas field in Niigata Prefecture, with successful production tests for oil and natural gas conducted at both fields during the subject fiscal year.

Three Phases of the E&P Business

Phase 1: Shift to overseas investment

Future investment ratios of exploration and development investment overseas

Approx. 60%
Fiscal years 2012 to 2016

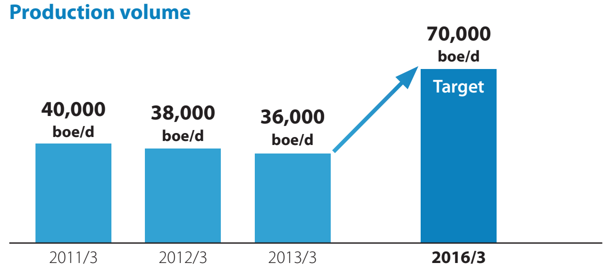
↑

Approx. 30%
Fiscal years 2007 to 2011

Phase 2: Increase production volume

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

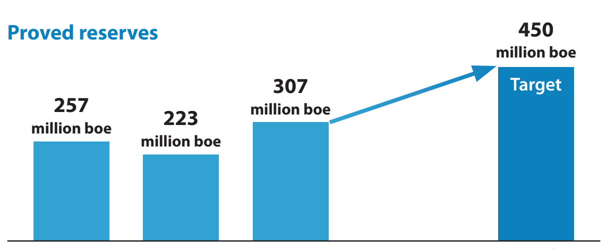
Production volume



Phase 3: Sustain and increase reserves

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

Proved reserves



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

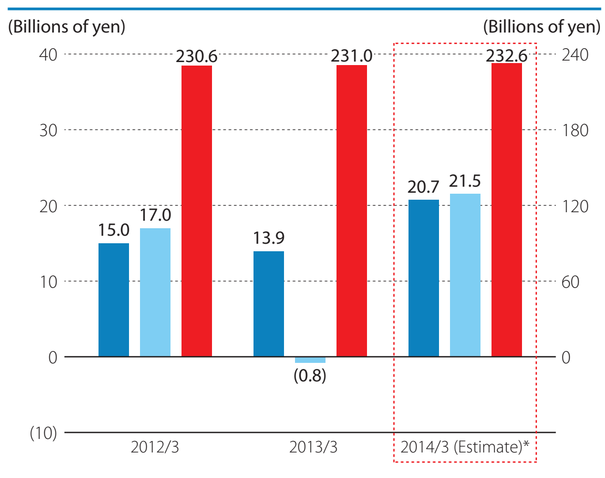
For the second basic policy, the domestic natural gas business, we are currently exploring the feasibility of constructing an LNG receiving terminal at the Port of Soma in Fukushima Prefecture (to begin operations in 2018). This terminal would link our existing infrastructure, such as the pipeline between Niigata and Sendai, with the imports of overseas LNG, including the Canadian LNG noted previously, and would further strengthen the upstream to downstream integrated supply structure for natural gas that forms our earnings base. A network supplied from both the Sea of Japan and Pacific coasts would also provide greater flexibility to cope with disasters.

For the third basic policy, the environment and innovative technology business, one of the initiatives we are pursuing is government-initiative technology development for methane hydrate. JAPEX was commissioned to be the project operator for the first offshore production test (gas production test) that began at the end of January 2013, and has played a key role in these tests, the first of their type in the world.

During fiscal year 2013 we also made advancements in geothermal power generation, a truly domestic energy source. We began drilling geothermal exploratory wells aimed at commercialization of geothermal energy in Shibetsu Town, Hokkaido, and are seeking to begin operations in approximately ten years.

Going forward, the JAPEX Group also plans to continue to proactively participate in government projects related to CCS and to accumulate technologies and experience with the aim of eventual commercialization.

Fiscal Year 2014 Business Forecast



* The estimates are based on JAPEX's announcement of May 10, 2013.

Business Outlook for Fiscal Year 2014

For the fiscal year ending March 2014, we are projecting a ¥1.6 billion increase in net sales compared to the previous fiscal year. Operating income is forecast to increase ¥6.8 billion to ¥20 7 billion, as a result of a decrease in depreciation from impairment loss on business assets recorded in the previous fiscal year in relation to production operations at the Yufutsu gas field in Hokkaido, as well as a decrease in exploration expenses overseas. Net income is projected to rise significantly in the current fiscal year on the rebound gain from the impairment loss recorded in fiscal year 2013, improving by ¥22 3 billion to ¥21.5 billion.

To Our Shareholders and Investors

JAPEX is committed to maintaining long-term, stable dividends and to increasing shareholder value by securing continuous corporate growth through the steady implementation of its Medium-Term Business Plan. Moreover, assuming continuing sustained growth, and recognizing the importance of initiatives toward society and the environment, HSE (occupational health, safety and the environment), corporate governance and other CSR activities, we will pursue systematic business activities that will contribute to the global environment and local communities.

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

September 2013

Osamu Watanabe
President & Chief Executive Officer

Crude Oil Price (Japan Crude Cocktail (JCC) Price) and Exchange Rate Assumptions Applicable to FY2014

	FY2012 (Actual)	FY2013 (Actual)	**FY2014 (Estimate)***
Crude oil price: ($/bbl)	112.43	114.67	**100.00**
Exchange rate: (¥/$)	78.93	81.71	**90.00**

Feature 1

Final Investment Decision on Canada Oil Sands Expansion Project

JAPEX, at a meeting of its Board of Directors held on December 14, 2012, made the final decision to invest in the oil sands development project in the Hangingstone block in Alberta, Canada.

Our consolidated subsidiary, Japan Canada Oil Sands Limited (JACOS), is currently producing 6,000–7,000 barrels per day of bitumen (extra-heavy crude oil extracted from the oil sands layer) in Hangingstone, commonly known as the 3.75 section area. This latest investment is a joint venture development project in an area adjacent to the 3.75 section area, with 75% of the interest held by JACOS, and 25% by Nexen Inc.

Approval for the development project was received from the Alberta state government in November 2012. We have concluded the basic design work and begun full-fledged development, with production slated to begin in 2016. (Refer to p. 15)

To mitigate the technology risk in this project, we plan to conduct development in stages, gradually expanding production while assessing production behavior from the initial stage.

Specifically, during the initial stage we anticipate bitumen production of 20,000 barrels per day, and will decide after production begins whether to expand the facility to accommodate 30,000 barrels per day.

The production period will be approximately 30 years, with operations conducted using the Steam Assisted Gravity Drainage (SAGD) method, which has been in use at the 3.75 section area for more than a decade.

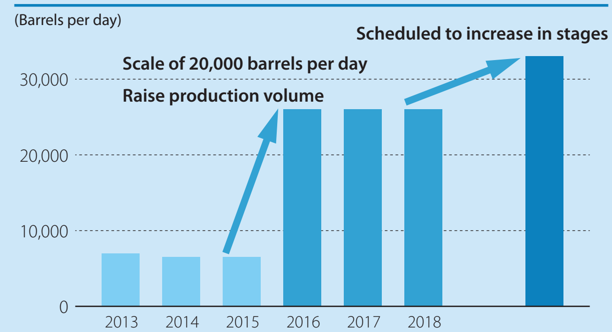
The bitumen produced will be diluted with an extremely light crude oil such as condensate. We plan to sell this as diluted bitumen, comparable to heavy crude oil, mainly to refineries in the United States via a pipeline.

Total investment for the initial development of this project includes JACOS's interest (75%) which will be approximately C$1.2 billion, with the necessary funds procured from owned capital and borrowings.

Overview of the Project

Start of production (scheduled)	2016
Production volume (scheduled)	The production volume will be approximately 20,000 b/d at the initial stage, with later expansion of the central processing facility to handle a maximum of 30,000 b/d. The production period will be around 30 years.
Ratios of participation in project	JACOS 75% (Operator) Nexen 25%
Total investment (initial development)	JACOS proportion (75%) is about Canadian $1.2 billion
Funds procurement method (initial development)	Own funds and bank loans
Marketing	We plan to sell the output as diluted bitumen, mainly to refineries in the United States via a pipeline.
Status of government approval	The development application was submitted to the Alberta state government (Energy Resources Conservation Board, and the Ministry of Environment and Sustainable Resource Development), with approval received in November 2012.
JAPEX's positioning of the project	JAPEX, with support from government and business, has since 1978 been testing various methods for commercial production of bitumen from the Canadian oil sands, and since 1999 has been conducting production operations using the SAGD method. The realization of this development project is a major step forward in making the oil sands business one of our core business operations. Building on this business, we plan to explore the possibility of development in surrounding blocks, such as the Corner and Chard blocks held by JACOS.

Hangingstone Block Development Schedule



Feature 2

Two LNG Projects

Soma LNG Project

Construction and commercialization of LNG receiving terminal under consideration

JAPEX has for many years supplied domestic natural gas produced in the coastal areas of the Sea of Japan including Niigata, Yamagata, and Akita prefectures, along with vaporized LNG received from overseas, through our pipelines between Niigata and Sendai, and between Shiroishi and Koriyama. We also supply LNG through our satellite system using railway tank containers and tank trucks, providing customers in these regions with gas for electricity generation, local distribution companies, and industrial customers.

To meet the anticipated rise in demand for natural gas in Pacific coastal areas, such as Fukushima, Miyagi, and Iwate prefectures, JAPEX is currently considering the final investment decision for construction of an LNG receiving terminal in Shinchi, Fukushima Prefecture (Port of Soma), along with a pipeline to Natori, Miyagi Prefecture to transport the vaporized LNG received at this terminal to a connection with the pipeline between Niigata and Sendai. We are aiming to begin operations in 2018.

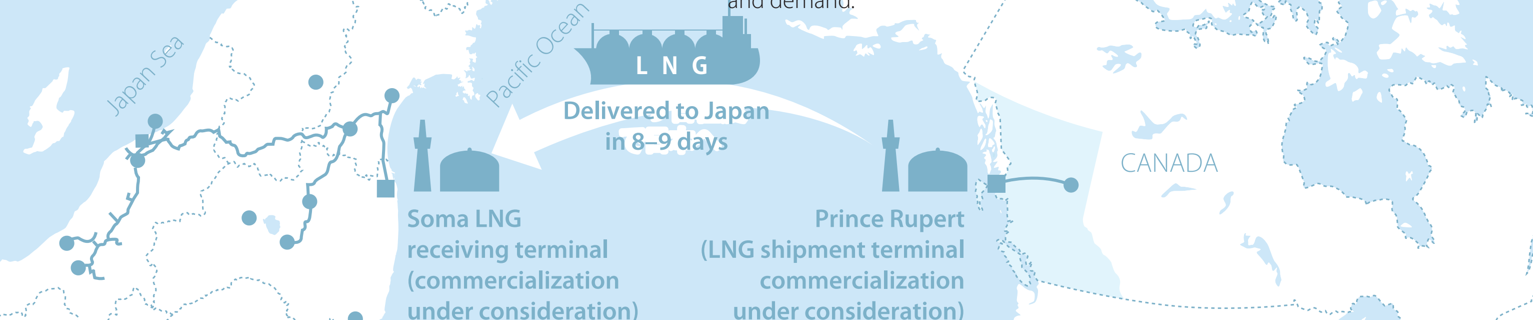
Canada Shale Gas to LNG Project (Pacific NorthWest LNG Project)

Aiming to start production and export to Japan at the end of 2018

In April 2013, JAPEX concluded a formal contract with Malaysian state-owned oil company PETRONAS to acquire a 10% interest in the shale gas mineral license currently under production in British Columbia, Canada, along with a 10% interest in the business of exporting the liquefied shale gas (LNG) produced.

The shale gas produced in this area, the volume of which is expected to increase in the future, will be transported via a newly constructed pipeline to Prince Rupert on the west coast of British Columbia, where it will be liquified to LNG and exported. The final investment decision regarding construction of the LNG plant will be completed at the end of 2014, and LNG will be exported to Japan at the end of 2018. LNG will be marketed through our existing pipelines and other infrastructure such as the pipeline between Niigata and Sendai, as well as the Soma LNG receiving terminal and connecting pipeline currently being considered for commercialization. This will further strengthen the integrated supply structure for natural gas that forms our earnings base.

By importing the abundant Canadian shale gas as LNG, which leads to the diversifying of LNG procurement, JAPEX is doing its part to close the gap between Japan's energy supply and demand.



By proceeding with the construction plan for the Soma LNG receiving terminal and with the Canadian shale gas and LNG project, JAPEX is also moving forward to dramatically strengthen its domestic natural gas business, and ensure a stable supply.

Review of Operations

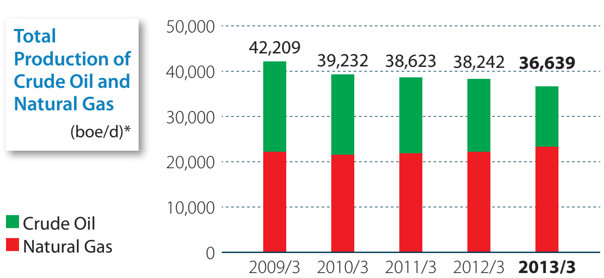
E&P Business

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

Exploration, development, production and sales constitute the backbone of the JAPEX Group. It is important that the Group expands its framework for ensuring the stable, long-term supply of crude oil and natural gas by maintaining and expanding reserves that become depleted by production and sales. To this end, in Japan and overseas the Group strives to uncover promising projects and to discover as well as secure new oil and gas reserves by engaging in effective exploration.

Daily Production of Crude Oil and Natural Gas

Average net production volume for fiscal year 2013 for the JAPEX Group was 13,321 b/d of crude oil, including bitumen, and 23,318 boe/d of natural gas for an aggregate total of 36,639 boe/d.



Notes: 1. Figures for crude oil include bitumen (an extra-heavy crude oil extracted from oil sands).
2. Includes equity-method affiliates from 2013/3.

*Conversion Factors and Units

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

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

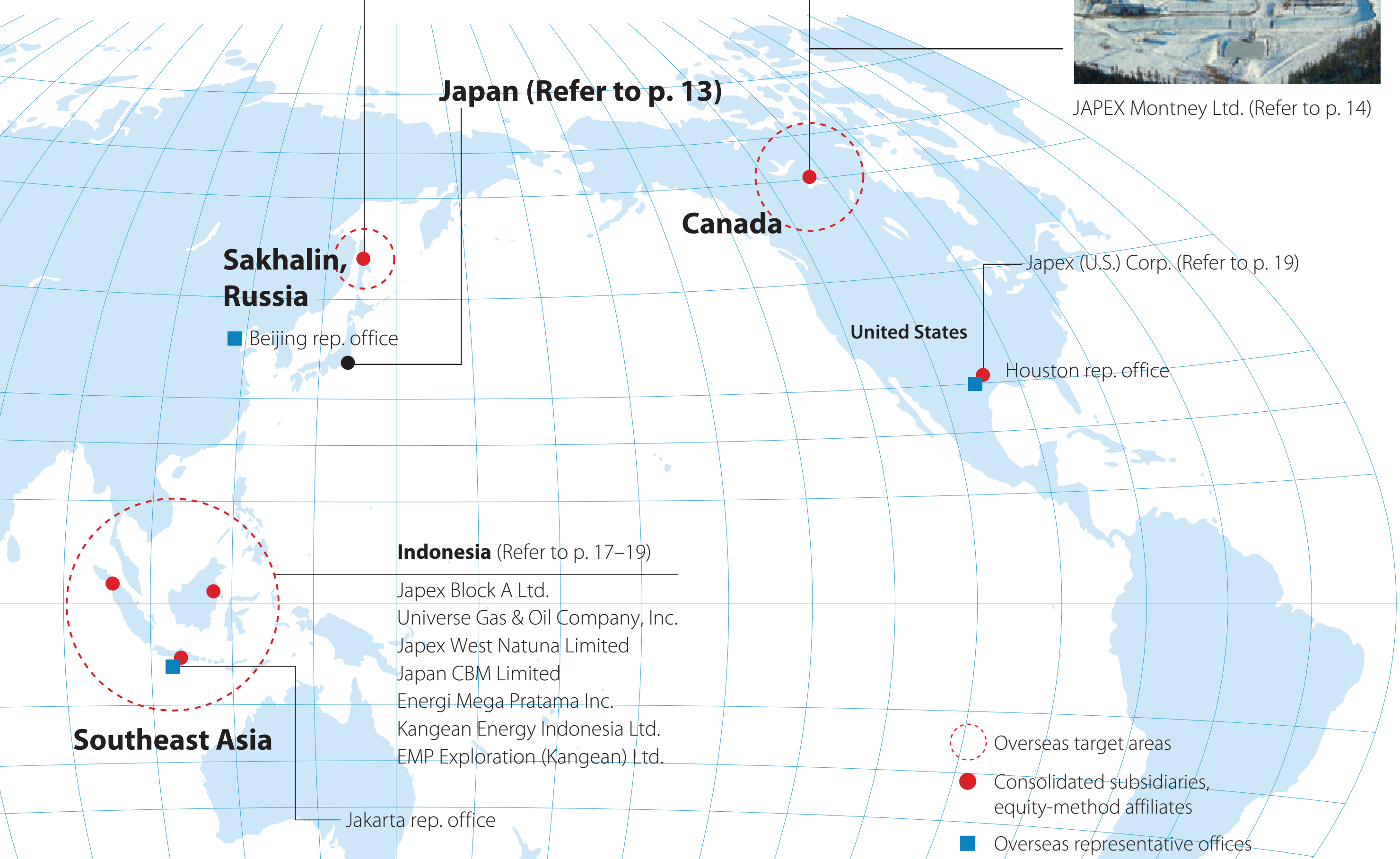
Where We Operate

Photo courtesy of Exxon Neftegas Ltd.

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

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

JAPEX Montney Ltd. (Refer to p. 14)



Indonesia (Refer to p. 17–19)

Japex Block A Ltd.
Universe Gas & Oil Company, Inc.
Japex West Natuna Limited
Japan CBM Limited
Energi Mega Pratama Inc.
Kangean Energy Indonesia Ltd.
EMP Exploration (Kangean) Ltd.

Overseas target areas
Consolidated subsidiaries, equity-method affiliates
Overseas representative offices

Indonesia
The Kangean block

Note: In principle, the statuses of the projects on pages 12–20 are as of August 31, 2013.

Domestic E&P

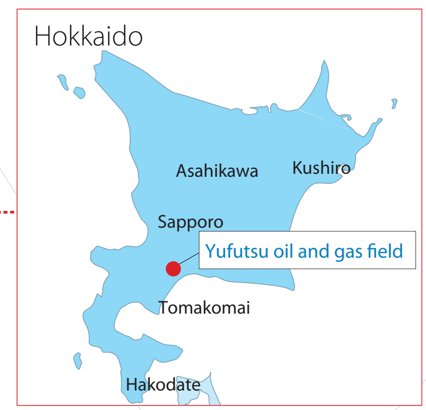
JAPEX currently operates 11 domestic land and sea oil and gas fields in Hokkaido, Akita, Yamagata and Niigata prefectures. In order to maintain and expand oil and natural gas reserves, JAPEX is aggressively pursuing E&P activities in line with plans, including by effectively combining E&P aimed at adding new large-scale gas reserves with the expansion of reserves in areas near existing oil and gas fields. These activities will center on the prefectures of Hokkaido, Akita and Niigata.

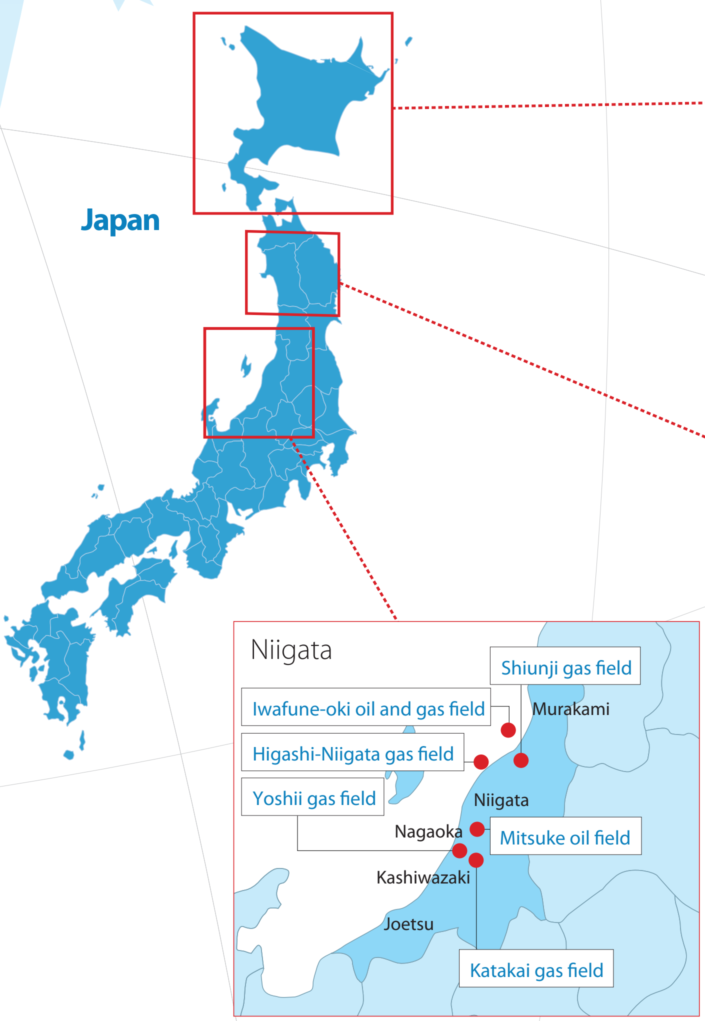
Results and Plans of Exploration and Development (Includes Japex Offshore Ltd.)

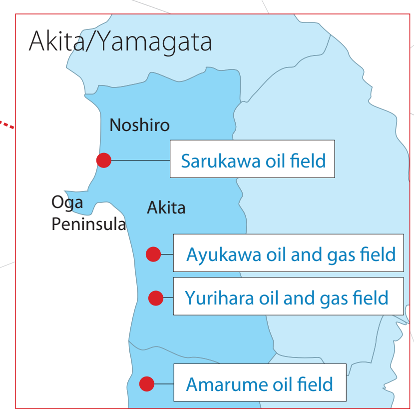
In fiscal year 2013, the average net production volume in Japan was 25,381 boe/d of crude oil and natural gas combined. Within this amount, crude oil accounted for 8,168 b/d and natural gas for 17,213 boe/d.

JAPEX conducted 2D seismic surveys in Akita and Yamagata prefectures as a part of its exploration activities in fiscal year 2013. At the same time, JAPEX drilled the exploration wells Numanohata (T1) SK-3DH and Akebono (T1) SK-2D-1H at Yufutsu in Hokkaido, and the multi-branch exploration wells Katakai SK-29D and Katakai SK-29D-1 at Katakai in Niigata Prefecture. In addition, we succeeded in the production tests for both crude oil and natural gas at both locations.

As regards exploration and development activities in fiscal year 2014, we plan to drill the exploration well Katakai SK-30D-1 at Katakai in Niigata Prefecture, the prospect well Iwafune-oki East MS-1 in the Iwafune-oki oil and gas field, and the exploration well Akebono A6H at Yufutsu in Hokkaido. As regards geophysical surveys, plans are in place to conduct 2D seismic surveys at two locations in Niigata Prefecture.







JAPEX's oil and gas fields

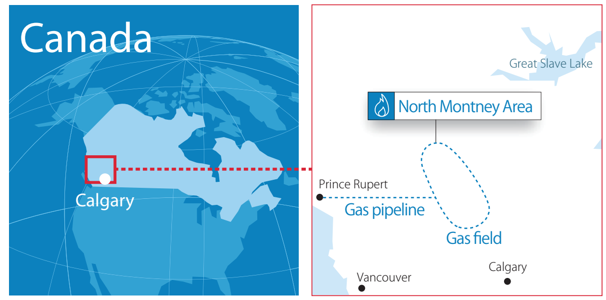
Overseas E&P

JAPEX is investing in the pursuit and development of new projects in its focus areas: Southeast Asia, Canada, the Middle East, North Africa and Sakhalin (Russia). Also, in order to achieve stability in production, reserves and revenue, it aims to build an investment portfolio that combines the acquisition of producing assets, undeveloped discoveries and exploration acreage.

Oil field Oil and gas field Gas field

Canada

Pacific NorthWest LNG Project



Shale Gas Development & Production Project (upstream)

Block	North Montney Area, British Columbia, Canada	
Project Company	JAPEX Montney Ltd. (incorporated in the State of Alberta, Canada)	
Interest	PETRONAS Group	90%
	JAPEX Group	10%

LNG project (midstream)

Proposed Plant Location	Lelu Island, Prince Rupert, British Columbia, Canada	
Interest	PETRONAS Group	90%
	JAPEX Group	10%

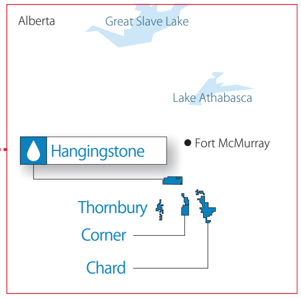
In April 2013, JAPEX acquired a 10% interest in the shale gas mineral license currently under production in the North Montney area, British Columbia, Canada. The shale gas production is projected to increase and will be transported by a new pipeline to Prince Rupert on the west coast of the province.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

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

Shale Gas Development & Production Project → LNG Project → LNG Offtake → Japan Domestic Gas Market

Canada

Japan Canada Oil Sands Limited (JACOS)

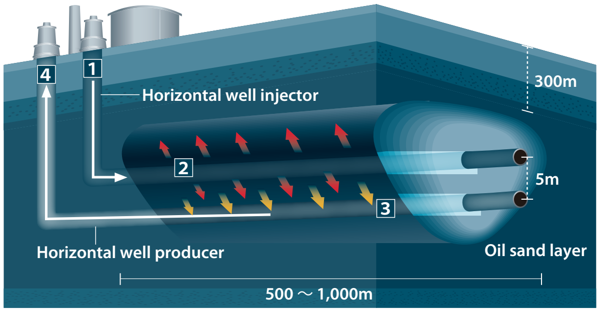


Block	Hangingstone (commonly known as the 3.75 section area)	
Project Company	Canada Oil Sands Co., Ltd. (local subsidiary: Japan Canada Oil Sands Limited)	
Interest	Japan Canada Oil Sands Limited (Operator)	100%

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

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

Schematic of the SAGD Process



1 Continuously injecting high-temperature, high-pressure steam into the upper well to provide liquidity to the bitumen.
2 The steam heats the oil sand layer.
3 Bitumen falls down to the lower well.
4 Bitumen emerges above ground along with warm water*.

* JACOS conducts environmentally friendly operations that minimize fresh water consumption by recycling more than 95% of the warm water produced.

In Canada, our consolidated subsidiary Canada Oil Sands Co., Ltd. is engaging in oil sand development through locally incorporated Japan Canada Oil Sands Limited (JACOS) using steam-assisted gravity drainage (SAGD) in a part of the Hangingstone area (commonly known as the 3.75 section area) in the Athabasca region of Alberta.

Progress at and future plans for the Hangingstone Oil Sands Expansion Project are presented as follows.

May 2008–Mar. 2010:	Conducted an environmental impact assessment
Apr. 2010:	Submitted a development application to the relevant agency of the Alberta state government (additional production of bitumen to a maximum of 30,000 barrels per day)
Around winter 2012:	Acquired development approval; made a final investment decision
2012–2013:	Commence development during the winter season
2016:	Commence production

JACOS owns leases for an oil sand area that is yet to be developed spanning a total of 430 km^2 in the Athabasca region.

Oil field Oil and gas field Gas field

The Middle East

Japex Garraf Ltd.

Field	Garraf oil field (Southern Iraq)	
Project Company	Japex Garraf Ltd.	
Participating Interest	PETRONAS Carigali Iraq Holding B.V. (Operator)	45%
	Japex Garraf Ltd.	30%
	North Oil Company	25%

The second international petroleum licensing round was held by the Iraqi Ministry of Oil in December 2009. JAPEX, along with Malaysian state-owned oil company PETRONAS, jointly secured the winning bid and acquired the development and production service contract to the Garraf oil field, located in southern Iraq.

In March 2010, JAPEX established Japex Garraf Ltd. as the project company to conduct the development of the Garraf oil field. We are working diligently with the operator, PETRONAS, toward crude oil production in the field.

Regarding local development work, a base camp was set up in March 2011 and exploration work commenced in June of the same year. As of April 2013, we have finished drilling 11 wells—two appraisal and nine development wells—all with satisfactory results. On August 31, 2013 (local time), we started production of crude oil at over 35,000 b/d, and will gradually raise the production volume in stages to reach the target production volume of 230,000 b/d in 2017.

We will continue to work on projects that contribute to the development of the local economy while maintaining thorough security measures on-site and consulting as necessary with the Iraqi government and relevant authorities.

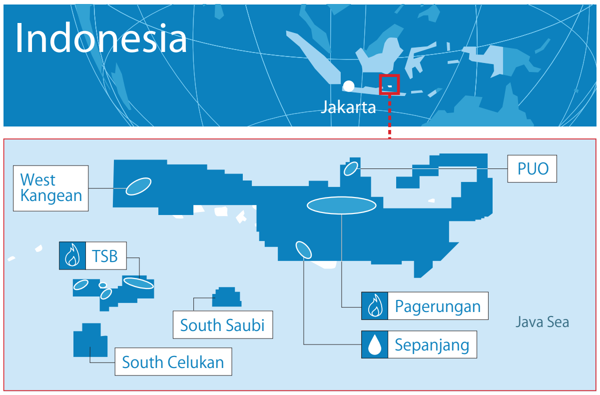
Overview of the Garraf Oil Field Development

Contract Type:	Development and production service	
Contract Term:	20 years (with optional 5-year extension)	
Remuneration:	U.S.$1.49 per barrel of crude oil production	
Scheduled Production Plan 2013:	Commenced initial production	
2017:	Achieve production target of 230,000 b/d	
Aggregate Production Volume:	Approximately 1.3 billion barrels during the contract	
Contracting Party:	South Oil Company (controlled by the Iraqi Ministry of Oil)	
Development Contractors:	Project Share	Capital Contribution
PETRONAS	45%	60%
Japex Garraf Ltd.	30%	40%
North Oil Company (controlled by the Iraqi Ministry of Oil)	25%	—*

* JAPEX and PETRONAS are to provide the capital contribution for the North Oil Company.

Southeast Asia

Energi Mega Pratama Inc.



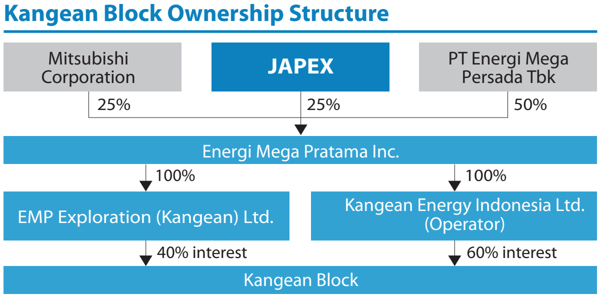
Block	Kangean Block (offshore East Java)	
Project Company	Energi Mega Pratama Inc.	
Interest	Kangean Energy Indonesia Ltd. (Operator)	60%
	EMP Exploration (Kangean) Ltd.	40%

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

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

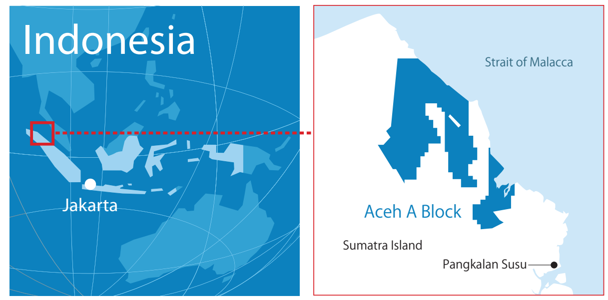
Within the same block, the company is moving forward with production activities at the Pagerungan gas field, and the Terang gas field in the TSB gas field, and development activities at the Sirasun gas field in the TSB gas field, and the Batur gas field. Production volume of both crude oil and natural gas for the entire block in 2012 totaled 28,104 barrels of oil equivalent per day. Commercial production commenced at the Terang gas field, which is part of the TSB gas field, from May 2012. From the same gas field at its peak, we plan to sell inside Indonesia a daily production of 300 million cubic feet of natural gas (an average annual production of 2,250 thousand tons, approximately 50 thousand barrels of oil equivalent per day).

Kangean Block Ownership Structure



Southeast Asia

Japex Block A Ltd.



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

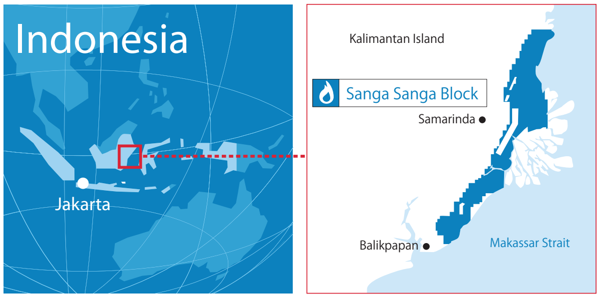
In December 2007, consolidated subsidiary Japex Block A Ltd. (16.6667% interest) received approval for the development plan of gas fields consisting of Alur Siwah, Alur Rambong and Julu Rayeu in the North Sumatra Block A from BPMIGAS, the PS contracting authority of Indonesia. We began the FEED process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

In addition to the above gas fields that are under development, we have conducted production tests at an exploration well in a prospect drilled from November 2012 through May 2013 that successfully yielded 25 million cubic feet per day of natural gas. Looking ahead, we will move ahead and evaluate the development and production activities of this successful project.

Oil field | Oil and gas field | Gas field

Southeast Asia

Universe Gas & Oil Company, Inc.

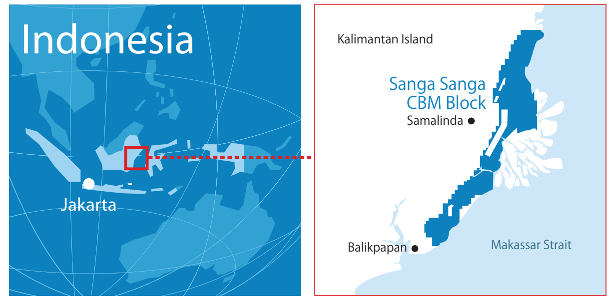


Block	Sanga Sanga Block (onshore in East Kalimantan Province)	
Project Company	Universe Gas & Oil Company, Inc.	
Interest	BP East Kalimantan Ltd.	26.250%
	LASMO Sanga Sanga Ltd.	26.250%
	Virginia International Co., LLC	15.625%
	Virginia Indonesia Co., LLC (Operator)	7.500%
	Opicoil Houston Inc.	20.000%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

Equity-method affiliate Universe Gas & Oil Company, Inc. (4.375% interest) carries out development and production centered on the four oil and gas fields of Badak, Nilam, Mutiara and Semberah in the onshore Sanga Sanga Block in East Kalimantan Province. In 2012, the company drilled 48 production wells to increase recovery efficiency and maintain production volume of crude oil and natural gas. Gross production volume was 80,235 barrels of oil equivalent per day of crude oil and natural gas for the block.

Southeast Asia

Japan CBM Limited



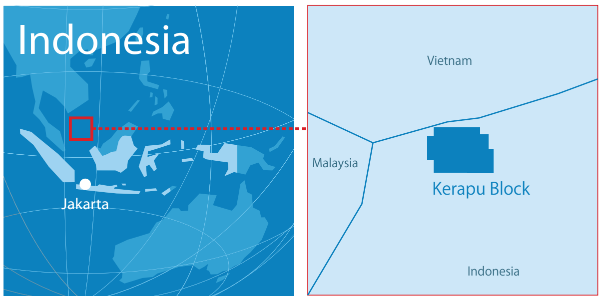
Block	Sanga Sanga CBM Block (onshore in East Kalimantan Province)	
Project Company	Japan CBM Limited	
Interest	BP East Kalimantan CBM Limited	26.250%
	Eni CBM Limited	26.250%
	Opicoil Energy	20.000%
	Virginia Indonesia Co. CBM Limited (Operator)	7.500%
	VIC CBM Limited	15.625%
	Japan CBM Limited	4.375%

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

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

Southeast Asia

Japex West Natuna Limited

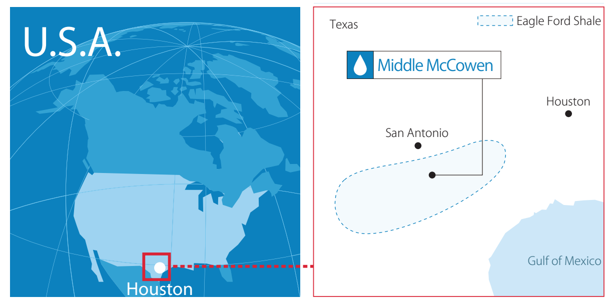


Block	Kerapu Block (offshore in West Natuna Sea)	
Project Company	Japex West Natuna Limited	
Interest	PEARL OIL (Tachylyte) Limited (Operator)	70%
	Japex West Natuna Limited	30%

JAPEX acquired a 30% interest in the Kerapu Block from PEARL OIL (Tachylyte) Limited, a subsidiary of Mubadala Petroleum, through consolidated subsidiary Japex West Natuna Limited, which was established in June 2013. Kerapu block is an exploration block located in the West Natuna Sea of Indonesia. A 3D seismic survey was conducted in this block in 2010, and extension activities are scheduled to be conducted during 2013.

North America

Japex (U.S.) Corp.



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

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

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

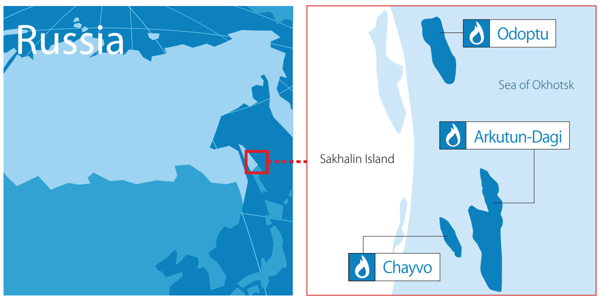
Furthermore, it has also been investing since 1997 in an upstream/midstream LNG III project in Malaysia through equity-method affiliate Diamond Gas Netherlands B.V.

In August 2012, JAPEX newly participated in a shale oil development project, which is engaged in development and production with Marathon Oil Corporation as the operator in the Eagle Ford region of southern Texas, and is now steadily expanding its production of shale oil.

Oil field Oil and gas field Gas field

Sakhalin

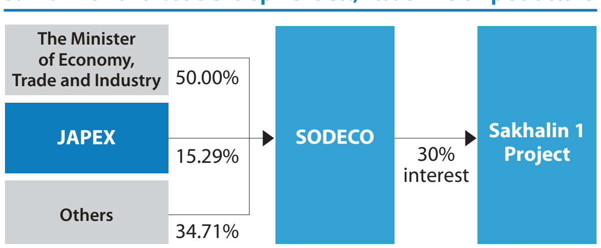
Sakhalin Oil and Gas Development Co., Ltd. (SODECO)



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

In Russia, JAPEX is engaged in the Sakhalin 1 Project through its investment in Sakhalin Oil and Gas Development Co., Ltd. (SODECO), which owns a 30% interest in the project. The Sakhalin 1 project is a consortium to explore and produce oil and gas at three fields: Chayvo, Odoptu and Arkutun-Dagi (offshore Sakhalin). Oil and gas are produced from the Chayvo field using offshore platforms, onshore well pads and a processing facility. In February 2007, the project reached its peak gross production target of around 250,000 barrels per day (40,000 kiloliters per day) and achieved a cumulative crude oil production volume of 100 million barrels in January 2008. In addition, crude oil production from the Odoptu oil and gas field commenced in September 2010, while all necessary preparations are being undertaken toward the commencement of crude oil production in 2014 at the Arkutun-Dagi oil and gas field.

Sakhalin Oil and Gas Development Co., Ltd. Ownership Structure



Proved Reserves

Proved reserves owned by JAPEX and its consolidated subsidiaries as of March 31, 2013, along with the Company's investment equivalent in proved reserves of equity-method affiliates are presented in the following table.

Proved Reserves of the JAPEX Group

Proved Reserves	JAPEX and consolidated subsidiaries								Equity-method affiliates		Total		
	Japan		Overseas			Subtotal							
	Crude oil (Thousand kl)	Gas (Million m³)	Crude oil (Thousand kl)	Bitumen (Thousand kl)	Gas (Million m³)	Crude oil (Thousand kl)	Bitumen (Thousand kl)	Gas (Million m³)	Crude oil (Thousand kl)	Gas (Million m³)	Crude oil (Thousand kl)	Bitumen (Thousand kl)	Gas (Million m³)
As of March 31, 2012	6,312	23,954	10	2,432	17	6,322	2,432	23,971	44	3,776	6,366	2,432	27,747
Increase due to expansion or discovery	—	—	—	16,275	—	—	16,275	—	—	—	—	16,275	—
Change due to revision of evaluation standard	(1,150)	(3,612)	(1)	48	(1)	(1,151)	48	(3,613)	3	305	(1,148)	48	(3,308)
Change due to acquisition and/or divestiture	—	—	143	—	17	143	—	17	2,482	813	2,625	—	830
Decrease due to production	(474)	(1,032)	(5)	(278)	(2)	(479)	(278)	(1,034)	(16)	(364)	(495)	(278)	(1,398)
As of March 31, 2013	**4,688**	**19,310**	**147**	**18,477**	**31**	**4,835**	**18,477**	**19,341**	**2,513**	**4,530**	**7,348**	**18,477**	**23,871**

Notes: 1. Proved reserves of consolidated companies include reserves held by minority interests.
2. Consolidated subsidiary Japex Garraf Ltd. commenced development operations in accordance with the Preliminary Development Plan (PDP) approved on January 19, 2011. While based on the future submission and approval of the appropriate Final Development Plan (FDP), evaluated reserves of crude oil held by the company as of March 31, 2013 stand at 7,520 thousand kl, this information has not been included in the table above. This is because an FDP has not at this stage been submitted or approved. FDP submission and approval is scheduled for 2013.

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

Proved Reserves	JAPEX and consolidated subsidiaries								Equity-method affiliates		Total		
	Japan		Overseas			Subtotal							
	Crude oil (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Bitumen (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Bitumen (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Bitumen (Million bbl)	Gas (Million boe)
As of March 31, 2012	40	146	0	15	0	40	15	146	0	22	40	15	168
												Total 223	
Increase due to expansion or discovery	—	—	—	102	—	—	102	—	—	—	—	102	—
Change due to revision of evaluation standard	(7)	(22)	(0)	0	(0)	(7)	0	(22)	0	2	(7)	0	(20)
Change due to acquisition and/or divestiture	—	—	1	—	0	1	—	0	16	5	17	—	5
Decrease due to production	(3)	(6)	(0)	(2)	(0)	(3)	(2)	(6)	(0)	(2)	(3)	(2)	(9)
As of March 31, 2013	**29**	**118**	**1**	**116**	**0**	**30**	**116**	**118**	**16**	**28**	**46**	**116**	**145**
												Total 307	

Note: Hitherto, JAPEX has disclosed the crude oil conversion volumes for reserves and production volumes as 5.6 mcf of natural gas = 1 bbl of crude oil (1,000 m³ = 1kl), but from the fiscal year ended March 31, 2012 and beyond the conversion rate is being changed to 5.8 mcf of natural gas = 1 bbl of crude oil (1,033 m³ = 1kl), which is the conversion factor currently recommended by the Petroleum Resources Management System (PRMS).
The conversion rate for the fiscal year ended March 31, 2011 and earlier was based on past conversion factors.

Conversion Factors and Units

Crude oil 1 kl = 6.29 bbl

Natural gas 1,033 m³ = 35.31 thousand cubic feet

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

boe: barrels of oil equivalent

Definition of Proved Reserves

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

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

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

In addition to the PRMS, the definition of proved reserves compiled by the United States Securities and Exchange Commission (SEC) is widely known among the investment community. Revisions released by the SEC in December 2008 have made this definition in essence similar to that provided by the PRMS. Based on its judgment, JAPEX has been disclosing data that conforms to the PRMS definition of "proved reserves." Proved reserves held by overseas project companies are indicated based on the economic share of each project company as defined in agreements signed with respective local governments.

To verify its own evaluations and judgments with respect to reserves, JAPEX contracted with third party Ryder Scott Company Petroleum Consultants to examine 67% of the proved reserves of the Company and its consolidated subsidiaries as of March 31, 2013* in Japan, as shown in the table on the previous page. Overseas, with respect to part of the bitumen reserves in the area owned by consolidated subsidiary Japan Canada Oil Sands Limited, JAPEX received a third-party evaluation from Sproule Unconventional Ltd. This evaluation was based on standards outlined in the Canadian Oil and Gas Evaluation Handbook, compiled by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and others. In addition, JAPEX also received a third-party evaluation with respect to the reserves of Japex (U.S.) Corp. and Kangean Energy Indonesia Ltd. JAPEX has therefore received third-party evaluations for approximately 72%* of total proved reserves (7,348 thousand kl of crude oil, 18,477 thousand kl of bitumen, and 23,871 million m^3 of natural gas) as of the end of fiscal year 2013, as shown in the table on the previous page. The evaluation figures from JAPEX itself and the third-party evaluation figures have been close from the past, but some of the figures at the end of fiscal year 2013 show that the third-party evaluation to some extent fell short of JAPEX's own evaluation. This difference will be assessed in the future.

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

* Calculations are based on a conversion factor of 1 kl of crude oil and bitumen = 1,033 m^3 (1 boe = 5.8 Mscf) of natural gas.

Review of Operations

Global Integration of Natural Gas Business

Aiming to Achieve an Even More Stable Supply

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

Gas Sources in Japan and Overseas

In the overseas upstream field of the gas supply chain, in April 2013 JAPEX acquired an interest in a shale gas block in the North Montney area of British Columbia, Canada, and decided to participate in the Pacific Northwest LNG Project in Canada. In conjunction, to receive overseas LNG in the domestic market, we are planning to construct the Soma LNG receiving terminal. (Both projects are still under consideration for commercialization.) We aim to market and realize an even more stable supply with these gas sources by linking them with our existing domestic pipelines and other infrastructure.

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

Natural Gas Pipeline Network

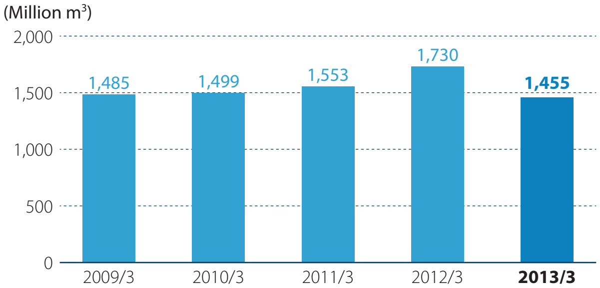
JAPEX owns and operates a domestic natural gas pipeline network with a total length of approximately 826 kilometers. This pipeline comprises part of the important local energy infrastructure and is our key strategic asset because it allows us to directly link our domestic gas fields to LNG receiving terminals.

In the Hokkaido area, we have constructed a pipeline connecting the Yufutsu oil and gas field to the city of Tomakomai and on to the vicinity of Sapporo to supply local distribution companies (LDCs) and industrial customers.

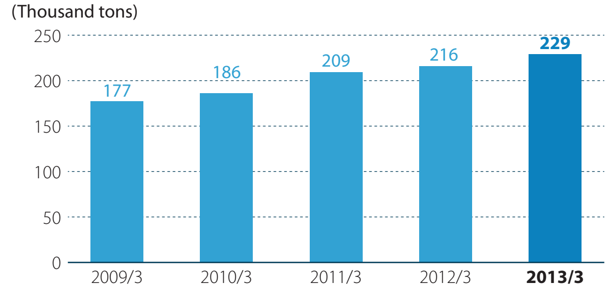
In the Akita area, we have constructed pipelines from the Yurihara and Ayukawa oil and gas fields into Akita City to supply natural gas, primarily to LDCs.

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

Natural Gas Sales

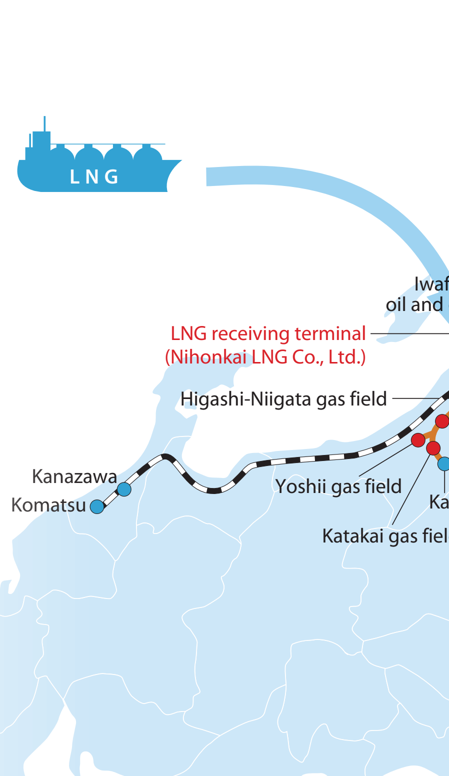


LNG Sales



Transportation of LNG by railway tank containers

Transportation of LNG by tank trucks

LNG Satellite System

JAPEX operates an LNG Satellite System to meet demand for gas in regions not served by its gas pipeline network. On the main island of Honshu, we supply the Tohoku, Hokuriku and other northern regions with LNG imported from overseas through an LNG receiving terminal in the port of Niigata using tank trucks and railway tank containers. Since it offers comparatively lower carbon dioxide emissions than tank trucks, the rail transport of natural gas is in the spotlight both in Japan and internationally as an environmentally friendly transport method.

Combining natural gas from the Yufutsu oil and gas field with LNG procured from external sources, steps have been taken to ensure stable supply as a part of efforts aimed at meeting peak winter natural gas demand in Hokkaido. The Company's Hokkaido District Office, located in Tomakomai Harbor, Western Port District, constructed an LNG receiving terminal and commenced operations in November 2011.

Review of Operations

Research & Development

JAPEX Research Center

Toward the Effective Utilization of Energy

The petroleum E&P industry is based on comprehensive technologies including geological surveys, geophysics, exploration, well drilling, oil reservoir engineering and information technologies. While many E&P companies outsource most of these diverse technologies, JAPEX, having evolved as a group of integrated E&P companies, boasts the competitive advantage of those inherent and accumulated technologies essential for exploration, development, production and transport.

The Company has positioned the environment and innovative technology business as one of three basic policies designed to expand its business. In this context, JAPEX is placing particular emphasis on accumulating innovative technologies and knowledge through its research on methane hydrate and CCS, as well as other areas.

JAPEX is also pursuing renewable energy sources such as geothermal and solar power. In the future we will establish these technologies and knowledge as a business model, fostering a new foundation for earnings.

Development of Methane Hydrate in Japan

Recognizing the potential of methane hydrate from early on, JAPEX has been actively involved in the development of related technologies, playing a central role in joint research carried out between fiscal years 1996 and 2000 with the Japan National Oil Corporation (currently Japan Oil, Gas and Metals National Corporation) and a number of private-sector companies. In 2000, JAPEX conducted exploration drilling of the Nankai Trough offshore Shizuoka Prefecture within its own mining block and became the first company in Japan to successfully collect a methane hydrate core off the coast of Japan. To utilize the research work, the Research Consortium for Methane Hydrate Resources in Japan (MH21) was established in 2001 in order to undertake research in accordance with "Japan's Methane Hydrate R&D Program" announced in July 2001 by the Ministry of Economy, Trade and Industry (METI).

Phase 1 research was commenced from 2001 and the accomplishment of phase 1 research proved that the gas hydrate is valuable for a new energy source.

Based on the accomplishment of phase 1 research, it is planned to proceed with the offshore production tests and establishing the technological platform, with extracting the point at technical issue toward the future commercial production, assessment of environmental impact and high level feasibility assessment of gas hydrate.

JAPEX has been commissioned to conduct the advance drilling operations for the first offshore production tests within its own block off the coast of Atsumi and Shima peninsulas.

We acted as the administrative agent for the operator of production testing. During the first offshore production test (gas production test) conducted between January and March 2013, we confirmed production of methane gas over a six-day period (average gas production volume of approximately 20,000 m^3 per day, for cumulative production of approximately 120,000 m^3) from the methane hydrate layer applying the depressurization method. This was the world's first offshore production test ever conducted, and acquired valuable data.

Looking ahead, JAPEX will continue to play a central role as a member of the Steering Committee of MH21.

Details of the Implementation of the Methane Hydrate Development Plan in Japan

Phase 1 (2001 to 2009) Basic Research	
2001	First onshore production test in Canada
2002	3D seismic survey in Nankai Trough
2003	Basic exploration in Nankai Trough
2007	Detailed assessment of reserve volume in Nankai Trough
2007–2008	Second onshore production test in Canada (successful production)
2009	Final assessment of Phase 1

Phase 2 (2009 to 2016)	
2012	Advanced drilling in first offshore production tests
2013	First offshore production tests
2015	Second offshore production tests
2016	Final assessment of Phase 2

2013 First Offshore Production Tests (Gas Production Tests)

Photo provided by the Japan Oil, Gas and Metals National Corporation

Map of Methane Hydrate Reservoirs around Japan

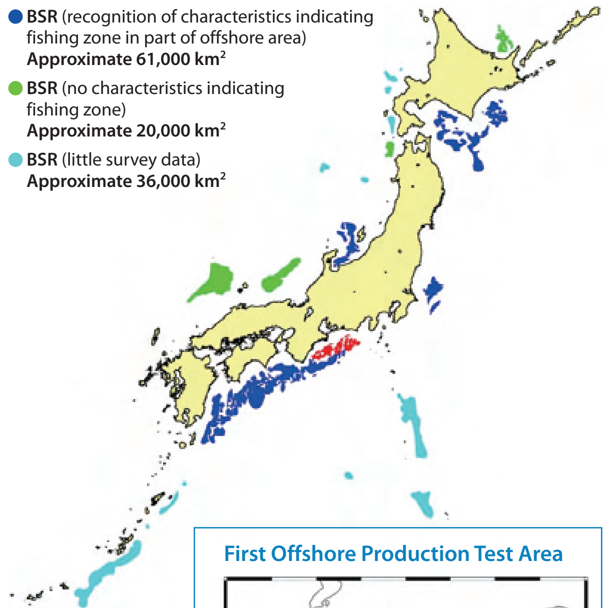
BSR* area: Approximate 122,000 km^2

● **BSR** (detailed survey shows fishing zone in part of offshore area)
Approximate 5,000 km^2

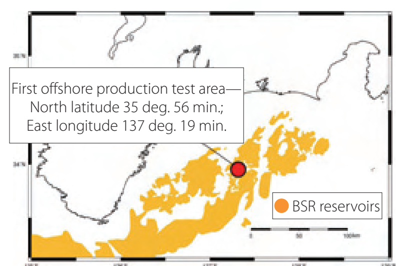
● **BSR** (recognition of characteristics indicating fishing zone in part of offshore area)
Approximate 61,000 km^2

● **BSR** (no characteristics indicating fishing zone)
Approximate 20,000 km^2

● **BSR** (little survey data)
Approximate 36,000 km^2



First Offshore Production Test Area



Source: 20th Methane Hydrate Development Investigative Committee materials

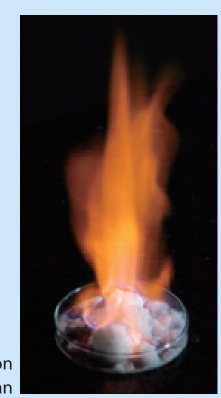
*BSR: Bottom Simulating Reflector.
The BSR distribution data obtained from seismic surveys provides clues about the existence of methane hydrate.
Source: Research Consortium for Methane Hydrate Resources in Japan

Glossary

What is methane hydrate?

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

Methane hydrate, a sherbet-like solid formed by methane captured inside water molecules, is attracting attention as a new energy resource. It is known to exist in highly pressurized, low-temperature natural environments, embedded in a shallow layer below the seabed at a water depth of over 500 meters or in permafrost layers near the North and South poles. Some estimate that offshore reserves of methane hydrate equivalent to more than 100 years of national gas consumption are present within the seas around Japan. Hopes are high that these reserves of methane hydrate could significantly enhance Japan's energy self-sufficiency.



Artificial methane hydrate after combustion
Photo provided by the Research Consortium for Methane Hydrate Resources in Japan

Commercialization of CO_2 Separation, and Capture and Storage Technology (CCS)

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

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

Applying Core E&P Technologies

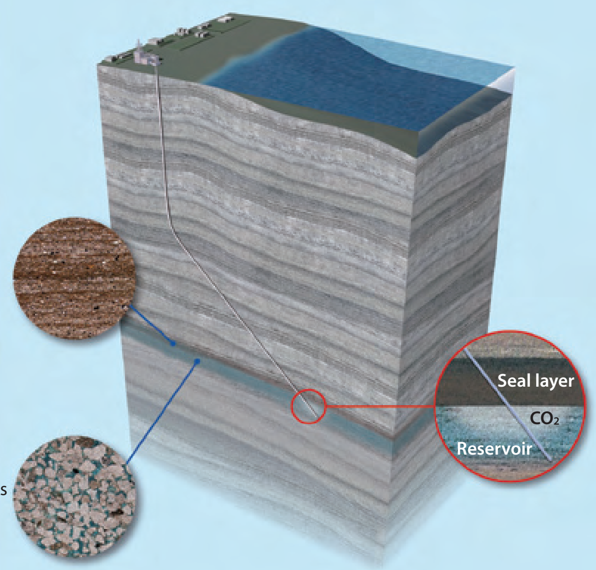
JAPEX possesses cutting-edge technologies cultivated over half a century of experience in petroleum exploration and development, such as those used for investigating underground structures, estimating petrophysical properties, drilling, production and fluid migration simulation underground, as well as underground monitoring centered on seismic surveys. Our exploration and development technologies combined represent indispensable core technologies for CCS, for example, the selection of injection points, exploration of injection wells, and for optimizing injections.

Commercialization of CCS Technology

In its Action Plan for Building a Low-carbon Society announced at the Toyako Summit in 2008, the government has stated its policy to commercialize CCS by 2020. In response to this policy, JAPEX in May 2008 jointly established Japan CCS Co., Ltd. with other private-sector companies. Japan CCS was commissioned by the Ministry of Economy, Trade and Industry to conduct the fiscal year 2013 demonstration tests of technology to reduce CO_2. The demonstration tests have established the commercialization potential of CCS, which will help to prevent global warming.

Schematic of CCS

Carbon dioxide Capture and Storage



Seal layer (mudstone, etc.)
A layer such as mudstone that does not permit CO_2 seepage.

Reservoir (sandstone, etc.)
The CO_2 is stored in the cracks of a layer such as sandstone that has many cracks.

The CO_2 is separated and recovered from the gas and other emissions of such major emitters as power generating stations and plants. This CO_2 is then injected and stored in the reservoir capped by seal layers at depths in excess of 1,000 m.

Source: Japan CCS Co., Ltd.

Development of Geothermal Resources

Geothermal resources, one of the renewable energies, extract steam and hot water from deep underground for power generation. Currently there are geothermal power stations operating in 17 areas in Japan.

Geothermal resources are a truly domestic energy source. Japan, a land of volcanoes, has abundant geothermal resources and is the third richest country in terms of geothermal energy. Geothermal energy is a clean energy with fewer greenhouse gas emissions. Also, geothermal energy is stable, which can generate continuously day and night. From this point of view, JAPEX aims to commercialize geothermal power generation.

Geothermal Surveys and Development

By utilizing the technologies and experiences accumulated in its oil and gas explorations, JAPEX has been conducting geothermal surveys in regions of Hokkaido, Tohoku, and Kyushu since 1977. One successful example is Yamagawa field in Kagoshima Prefecture. JAPEX constructed a 30,000kW geothermal power plant in 1995 in collaboration with Kyushu Electric Power Co., Inc., and took the responsibility for steam supply. (All the JAPEX's assets in the plant were transferred to Kyushu Electric Power Co., Inc. in 2005)

JAPEX also had conducted geothermal surveys in eastern Hokkaido region, including in the Akan area (City of Kushiro) and Musadake area (Shibetsu Town). These were followed by government surveys, which reconfirmed the existence of promising resources. Recent geothermal activities of JAPEX were in the Kirishima-Eboshidake area (Kagoshima Prefecture) from fiscal years 2002 to 2005, the Shibetsu-serayama area (Hokkaido) from fiscal years 2006 to 2007, and the Musadake area (Shibetsu Town) in fiscal year 2011, that were sponsored by the government and contributed to geothermal development.

Pursuing New Geothermal Potential

There is much expectation for geothermal development, and in order to promote it, the Japanese government has introduced 1) Deregulation for development in national parks, 2) Establishment of the FIT (Feed-in Tariff, fixed price trading system), which offers long-term contracts to renewable energy producers, and so on.

By applying to these incentives, JAPEX has started geothermal exploratory well drilling in the Musadake area (Shibetsu Town) since August, 2013. It ultimately aims to commence power generation in 2023. At the same time, JAPEX is pursuing new geothermal potential in various areas including the Furebetsu-dake-minami area (City of Kushiro).

* NEDO (New Energy and Industrial Technology Development Organization) geothermal development surveys in the fiscal years 2002–2005. Kirishima-Eboshidake area geothermal survey: production test (run by JAPEX).

Risk Factors

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

1. Factors Relating to Changes in Operating Results

(1) Factors Affecting Sales of Crude Oil

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

(2) Factors Affecting Sales of Natural Gas

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

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

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

2. Business Risks

(1) Business Characteristics

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

A related matter that could have a significant impact on investors' decisions is that in the fiscal year ended March 2013, as a result of a decline in productivity in the Company's Yufutsu oil and gas field (Tomakomai, Hokkaido), the Company recorded an impairment loss of ¥37,031 million, and the book value of commercial assets related to production operations in the oil and gas field was written down to a recoverable amount.

(2) Impact of Energy Market Liberalization

Regulations in the electricity and gas sectors in Japan are being relaxed in various ways with the aim of introducing market mechanisms. In accordance with the revised Gas Business Act that took effect on April 1, 2004, companies with a certain level of supply capacity are obligated to provide third-party access to their pipelines, which includes pipelines owned by the JAPEX Group.

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

(3) Overseas Business Risks

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

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

3. Fluctuations in the Stock Price of INPEX CORPORATION

As of the end of March 2013, JAPEX owned 7.31% of the stock of INPEX CORPORATION. The JAPEX Group's balance of investment securities as of March 31, 2013 was ¥177,304 million. Of this amount, shares of INPEX CORPORATION accounted for ¥133,616 million. As is the case with the JAPEX Group, the results of operations and stock price of INPEX CORPORATION are affected by such factors as trends in crude oil prices. Accordingly, in the event of fluctuations in INPEX CORPORATION's stock price, there is a possibility that the Group's financial position could be affected.

4. JAPEX Shares Held by the Government

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

Following the abolition of the Corporation, stock it owned in the Corporation was transferred to the government (Minister of Economy, Trade and Industry) as of April 1, 2005. The government subsequently sold 15.94% of its stockholdings in the Company through a stock sale with a date of delivery of June 15, 2007, and as a result, the Minister's stockholding in the Company has fallen to and remains at 34.00%. There is a continuing possibility that the remaining government-held shares could be sold, which, depending on the timing, method and volume of any sale, could affect the Company's stock price.

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

Corporate Social Responsibility

JAPEX endeavors to fulfill its mission of providing a stable, long-term supply of energy essential to the livelihood of society, and places top priority on occupational health, safety and the environment (HSE).

In our business, we recognize the importance of building relationships of trust with all our stakeholders. Moreover, we proactively implement social contribution activities rooted in the local community to fulfill our responsibilities as a good corporate citizen.

We decided to systematically implement our CSR activities in fiscal year 2013, and in May 2013 we established a CSR Committee to coordinate these activities.

Occupational Health and Safety

Independent Safety Activities

Each year, JAPEX sets a safety policy and related objectives and undertakes independent safety activities. Our safety policy and objectives for 2013 are as shown below. We review the success of the year's safety activities as a whole at year-end and apply the results to the following year's activities. In this manner, JAPEX continuously upgrades its safety levels to virtually eliminate accidents and disasters.

Safety Policy for 2013

In the spirit of respect for human dignity and with safety as our utmost priority, employees at Headquarters and each district office, representative office and field office will work as one to keep safety first and to build an accident-free, safe and pleasant working environment.

Safety Objectives for 2013

We will promote work safety based on the following objectives:

1. **To achieve zero workplace accidents**
2. **To achieve zero environmental pollution**
3. **To create a safe and pleasant working environment**

Participating in the Akita Kanto Festival

Emergency Measures

We have prepared emergency measures and a manual based on potential emergency situations and related circumstances that might affect our employees, facilities, operations or sales activities. In the event of an emergency situation, we gather and communicate information and give directives according to the established measures and manual. If required, we set up an Emergency Headquarters and an Emergency Team in the Company's Headquarters as well as a Local Emergency Headquarters in each district office to address the situation. Furthermore, we conduct emergency training sessions at corporate headquarters and district offices each year, and we are continually working to improve our emergency measures and manual.

Environmental Preservation Initiatives Outside Japan

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

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

Relationship with Society

As an Integral Member of the Local Community

At each of its division and field offices, JAPEX strives to promote the exchange of ideas, opinions and information in an effort to ensure that local communities obtain a deeper understanding of the Company's activities. In addition to welcoming oil and gas field tours by local government authorities and the corporate sector, JAPEX allows elementary school students to visit its facilities, as well as conducting tours, lectures and seminars to support senior high school and university students in their search for employment.

Furthermore, we actively take part in local festivals, entering a *kanto* (bamboo pole) carrying lanterns with the Company's logo in the Kanto Festival in Akita City, Akita Prefecture. In Niigata Prefecture, we sponsor fireworks displays every year at the Nagaoka Festival in Nagaoka City and at the Katakai Festival in Katakai, Ojiya City. We also actively participate in and sponsor local festivals.

Great East Japan Earthquake Volunteer Activities

After the Great East Japan Earthquake, 182 JAPEX Group directors, employees and family members, receiving support from JAPEX, took part in volunteer activities, including the removal of debris from three locations in Miyagi Prefecture.

With the aim of providing psychological support for children, we invited junior high school students from Minamisanriku Town to Akita City to play a softball match against a local junior high school. Apart from playing softball, the children stayed in company dormitories and watched JAPEX employees dressed as the traditional local ogre *namahage* and the *kanto* bamboo pole with lanterns used at the Kanto Festival.

Contributions to the Local Community in Garraf (Iraq)

With financial assistance from the Japanese government, JAPEX and PETRONAS provide funds for the maintenance and running of the Garraf Vocational Training Center within the Garraf oil field contractual territory.

The center provides training opportunities for the local people in order to stimulate employment in the area and accepts around 600 trainees every year. Courses in various subjects, including electrical wiring and air-conditioning equipment repair, are held.

We have also provided the funds to build a soccer field adjacent to the training center. In cooperation with local authorities and NGOs, we held for the first time a league tournament among 12 teams from the surrounding villages from January to March 2013. We hope to make these kinds of events a local feature by holding junior league tournaments and other competitions in the future.

A lesson at the Garraf Vocational Training Center

Internships and the Dispatch of Lecturers Outside

As one of a limited number of companies that engages in the domestic exploration, development and production of oil and natural gas, JAPEX accepts trainees from both within and outside Japan.

Japanese and foreign undergraduate, graduate and high school students are accepted as interns in Japan, and practical training is provided at oil and gas fields, the research center and corporate headquarters. A portion of this practical training is recognized as falling within the scope of units required for graduation.

JAPEX also dispatches lecturers to support overseas engineers and petroleum mining basic knowledge programs held at the technology research center of JOGMEC as well as to give lectures on petroleum and other topics conducted by the Japan Petroleum Development Association. At the same time, JAPEX is actively involved in the education and training of engineers and administrative personnel both in Japan and abroad.

Endowed Graduate School Programs

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

Currently, we support the Creative Research Institution of Hokkaido University, in its activities related to the behavior of deep underground coalbed methane shale gas, Cenozoic petroleum systems and global systems.

Afforestation Activities

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

Corporate Governance

1. Basic Policy

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

2. Corporate Governance Structure

As well as the representative directors, JAPEX's directors and/or executive officers whose duties are assigned by the Board of Directors, serve as the Company's operating officers. The Board of Directors and corporate auditors (including the Board of Corporate Auditors consisting of all corporate auditors) in turn supervise the execution of these responsibilities. JAPEX has adopted the Corporate Auditor System.

(1) Directors, the Board of Directors and the Executive Committee

JAPEX has appointed 14 directors, one of whom is selected from outside the Company. The Board of Directors meets regularly once per month, and retains decision-making authority over important decisions. It also serves in a supervisory role by receiving reports on the status of operations submitted by directors and executive officers.

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

(2) Corporate Auditors and the Board of Corporate Auditors

JAPEX appoints four corporate auditors, two of whom are outside corporate auditors. Corporate auditors attend meetings of the Board of Directors. Full-time corporate auditors attend meetings of the Executive Committee and other important meetings, and fill a supervisory function through exchanges of opinions as necessary with the various directors and executive officers responsible for business execution.

Although each corporate auditor commands independent auditing authority, auditing policy and the assignment of auditing responsibilities are decided by the Board of Corporate Auditors.

(3) Outside Director and Outside Corporate Auditors

The outside director and two outside corporate auditors have no personal, financial, business relationship or other interests with the Company.

The outside director and outside corporate auditors must not possess a conflict of interest with ordinary shareholders and must have a neutral and equitable status to pursue profits on behalf of the Company's shareholders. Each of the current three outside officers meets these conditions.

In addition, the selection of the current outside director and outside corporate auditors has been determined to be valid based on a corporate governance perspective that accounts for the mix and number of directors and corporate auditors of the Company.

(4) Internal Audit

The Auditing Department, reporting directly to the president, oversees business execution in all departments in terms of compliance with laws and internal Company regulations.

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

(5) Accounting Auditor

The accounting auditor who conducted the audit of the Company's financial statements and the internal control practices for fiscal year 2013 was Ernst & Young ShinNihon LLC. The members of the individual accounting auditors who executed the audit are listed below:

- Accounting auditors: Kazuhiko Umemura, Satoshi Takahashi
- Composition of auditors: 7 certified public accountants, 14 assistant auditors

(6) Cooperation between Corporate Auditors, Accounting Auditor and Internal Audit Departments

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

The internal control report compiled by the Internal Control Department is submitted to the president, Board of Corporate Auditors and the accounting auditor. The department also provides regular explanations on the status of the audit to the full-time corporate auditors.

(7) Reason for Adopting this Corporate Governance Structure

JAPEX adopts the Executive Officer System for the purpose of clarifying the business execution structure. As well as the representative directors, the system has been set up so that JAPEX's directors and/or executive officers, whose duties are assigned by the Board of Directors, serve as the Company's operating officers.

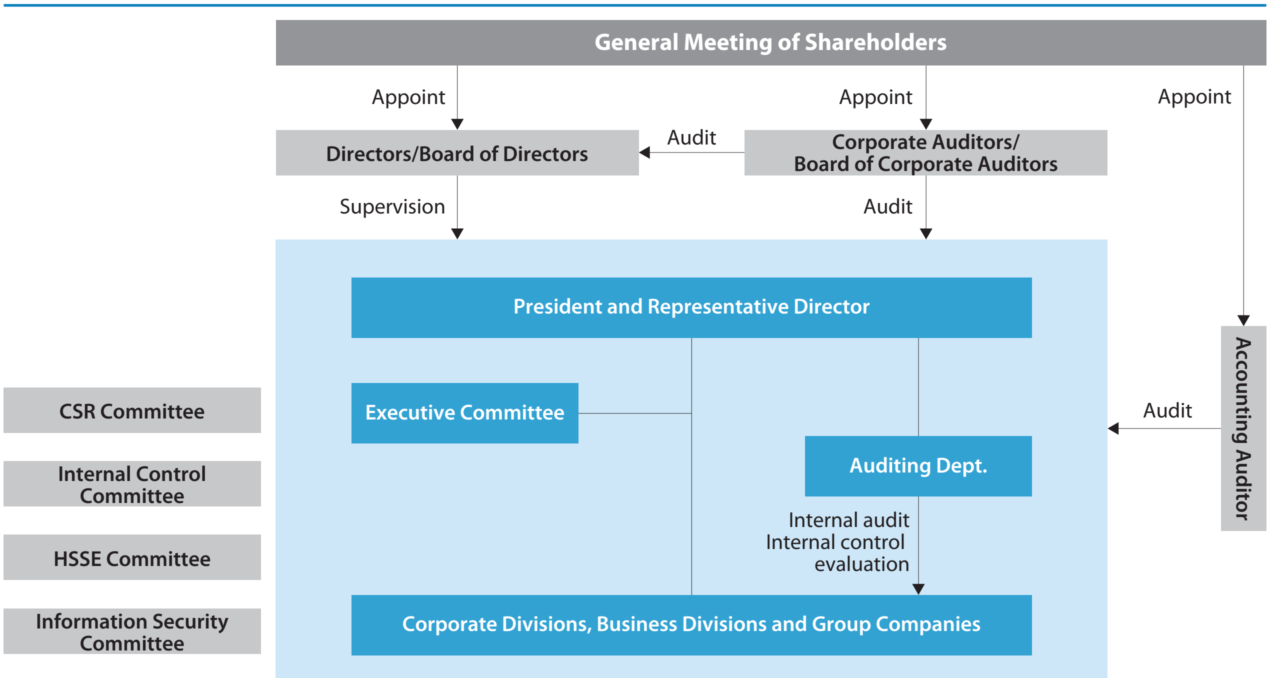
In order to strengthen the oversight function of the Board of Directors, JAPEX also appoints an outside director with a high degree of independence and insight. The outside director and outside corporate auditors stand in an independent position from the Company's executive management team to actively offer ideas on resolution proposals and deliberations, provide advice and engage the Board of Directors in dynamic discussion.

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

3. Structures Regarding Internal Control and Risk Management Systems

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

Corporate Governance and Internal Control Structure



(1) System to Ensure the Execution of Duties by Directors is in Compliance with Relevant Laws and the Articles of Incorporation

In accordance with regulations and resolutions of the Board of Directors, each director, based on their individual responsibilities and authority, promotes mutual supervision through discussions within and reports to the Board. Corporate auditors may offer their opinions to the Board where necessary.

(2) System to Store and Manage Information Related to the Execution of Duties by Directors

Minutes of meetings of the Board of Directors, management approval documents, contracts and important documents that show the status of the execution of business matters are stored. The details of how these documents are handled are determined by specific document handling regulations.

(3) Regulations and Other Systems to Manage Risk Related to Losses

Credit management regulations, market risk management and derivative trading regulations and emergency response procedures are reviewed, and where necessary, procedural manuals created and other steps taken from the perspective of risk management.

(4) System to Ensure Directors Execute Their Duties Efficiently

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

(5) System to Ensure the Duties and Actions of Employees Comply with Relevant Laws and the Articles of Incorporation

The duties of employees are managed in accordance with regulations for each administrative process and procedural manuals in each department. The Auditing Department monitors the effectiveness of internal control systems and reports the results to the president.

(6) System to Ensure Appropriate Business Activities by the JAPEX Group

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

(7) Matters Related to Employees Requested by Corporate Auditors to Support Audit Activities

At least one employee must be assigned to the secretariat of the Board of Corporate Auditors to perform duties as instructed by the Board of Corporate Auditors.

(8) Independence of Employees Mentioned in the Previous Item from Directors

Appointment, transfer and other personnel matters related to the employee(s) appointed to the secretariat of the Board of Auditors require the prior approval of the Board of Auditors.

(9) System to Allow Directors and Employees to Report Information to Corporate Auditors and Other Related Reporting Systems

The directors must submit reports to the corporate auditors at monthly meetings of the Board of Directors, and refer the corporate auditors to management approval documents. In the event that directors discover facts that could lead to substantial damages to the Company, they must immediately report them to the Board of Auditors.

(10) Other Systems to Ensure Corporate Auditor Activities are Conducted Effectively

The Auditing Department and the accounting auditor must regularly provide information to the corporate auditors.

(11) System to Ensure the Appropriateness of Documents and Other Information Pertaining to Financial Calculations

To ensure the reliability of financial statements, an internal control system related to financial statements is established and effectively operated, and its effectiveness is evaluated.

In addition, JAPEX, in executing decisions regarding business matters, makes organizational decisions at the Executive Committee or when necessary at the Board of Directors, under the responsibility of directors and executive officers in charge of each business group, based on an assessment of operational risk (planning, strategy, finance and credit risk). JAPEX conducts business operations according to this phased approach to decision making, and has developed a framework for managing operational risk, including the creation of various operating manuals developed for the execution phase. In addition, the Internal Control Committee and Auditing Department create risk-mapping scenarios for specific operational risks and conduct reviews of risk management structures that include principal Group companies.

4. Details about Remuneration and Compensation

For the fiscal year under review, remuneration provided to directors and corporate auditors as well as compensation provided to the accounting auditors are presented as follows:

(1) Remuneration of Directors and Corporate Auditors

i) Total Remuneration, Breakdown of Remuneration and Number of Applicable Officers by Classification

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Base Pay	Bonus	Retirement Benefits	
Directors (Excluding the outside director)	489	368	–	121	14
Corporate auditors (Excluding the outside corporate auditors)	47	31	4	11	2
Outside director and outside corporate auditors	46	36	–	10	3

Note: The number of officers above includes one director who retired at the conclusion of the Company's 42nd Annual General Meeting of Shareholders on June 26, 2012.

ii) Director Remuneration Policy

The basic or monthly remuneration for each director is determined by the president based on a resolution passed by the Board of Directors, while monthly remuneration for each corporate auditor is determined based on discussions among corporate auditors. Monthly remuneration is set within the ceiling determined by a resolution passed at a General Meeting of Shareholders (directors: ¥40 million; corporate auditors: ¥6 million).

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

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

(2) Compensation of Accounting Auditors

i) Compensation based on auditing and attestation

JAPEX: ¥61 million, consolidated subsidiaries: ¥24 million

ii) Compensation based on other services

JAPEX: ¥4 million, consolidated subsidiaries: ¥2 million

Compensation provided to accounting auditors is determined based on such factors as the number of auditing days.

Financial Section

Five-Year Summary

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

Millions of yen

	2013	2012	2011	2010	2009
For the Year:					
Net sales	**¥ 231,086**	¥ 230,638	¥ 199,651	¥ 179,752	¥ 202,127
Cost of sales	**172,075**	174,359	144,919	125,467	134,447
Exploration expenses	**13,086**	7,805	9,798	10,396	15,352
Selling, general and administrative expenses	**32,017**	33,426	31,084	30,769	32,237
Operating income	**13,906**	15,045	13,849	13,119	20,090
Net income (loss)	**(865)**	17,027	10,010	17,939	12,560
Capital expenditures	**25,355**	23,806	21,975	28,835	30,902
Depreciation and amortization	**16,294**	23,902	24,587	23,237	21,521
Cash flows from operating activities	**34,254**	37,172	34,284	38,948	36,381
Cash flows from investing activities	**(14,836)**	(13,950)	(24,282)	(29,300)	(23,342)
Cash flows from financing activities	**(7,177)**	9,856	(521)	(4,054)	(477)
At Year-End:					
Total assets	**¥ 525,172**	¥ 532,890	¥ 516,098	¥ 521,009	¥ 500,444
Net assets	**403,625**	406,773	393,689	398,747	378,227
Long-term loans payable	**24,197**	26,198	26,898	24,471	25,325

Yen

Per Share Data:					
Net assets per share	**¥6,691.58**	¥6,869.27	¥6,743.83	¥6,839.05	¥6,486.85
Net income (loss) per share	**(15.14)**	297.92	175.16	313.88	219.77
Cash dividends per share (full-year)	**40.00**	40.00	40.00	40.00	40.00
Other Data:					
Number of employees	**1,747**	1,743	1,728	1,735	1,678

Management's Discussion and Analysis

Scope of Operations

The JAPEX Group (the Company and its subsidiaries and affiliates) comprises the Company, 26 subsidiaries and 17 affiliates as of March 31, 2013. The Group's oil and natural gas-related operations make up the core of its business activities. In addition to its endeavors in Japan, the JAPEX Group works diligently to develop business overseas through its project companies established at each business base.

Analysis of Operating Results

Overview

As regards operating results in fiscal year 2013, ended March 31, 2013, net sales were ¥231,086 million, an increase of ¥448 million compared with the previous fiscal year. However, operating income declined ¥1,139 million year on year to ¥13,906 million, and net income was down ¥17,892 million to become a net loss of ¥865 million.

Crude Oil Prices and Exchange Rates

The average unit sales price of crude oil received by JAPEX during fiscal year 2013 in terms of year-round average sales price was ¥59,023 per kiloliter, an increase of ¥1,169 per kiloliter compared with the previous fiscal year.

The sales price of domestic crude oil is essentially linked to yen translations of the price of imported crude oil. On a dollar basis, the weighted average price of crude oil based on the Japan Crude Cocktail (JCC) price was $114.67 per barrel, up $2.24 from the level per barrel of the previous fiscal year. Compared with the previous fiscal year, the yen appreciated ¥2.78 relative to the dollar, for a weighted average exchange rate of ¥81.71.

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

In addition, the weighted average unit sales price of bitumen in Canadian dollars was C$50.71 per barrel, which was up by C$0.90 compared with fiscal year 2012. Whereas, the weighted average exchange rate was ¥87.05 to the Canadian dollar, as the yen appreciated by ¥10.83 relative to the Canadian dollar year on year.

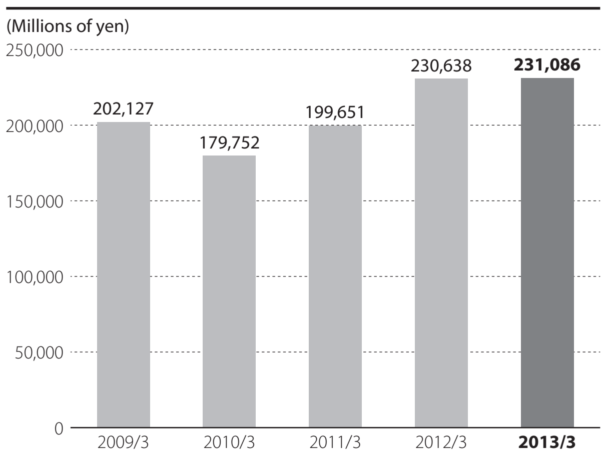
Capital Expenditures and Depreciation

Capital expenditures increased ¥1,549 million year on year to ¥25,355 million. Major components of these expenditures included the acquisition of E&P rights related to a shale oil interest in the United States, and investments relating to the development of the Garraf oil field in Iraq. Depreciation and amortization expenses fell ¥7,607 million compared with the previous fiscal year to ¥16,294 million.

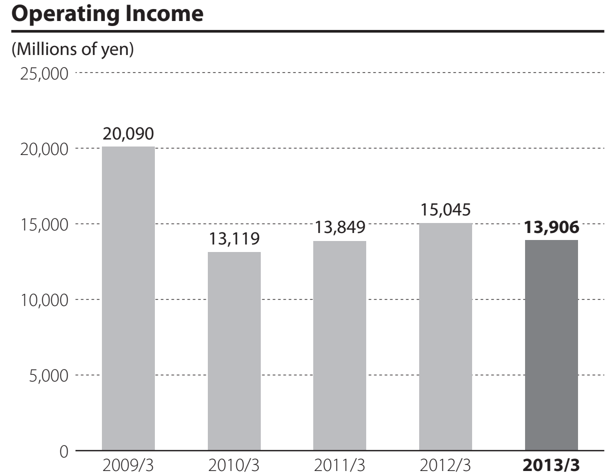
Exploration Activities

Exploration expenses (after excluding government subsidies) increased ¥5,280 million year on year to ¥13,086 million.

Net Sales



Operating Income



Domestic exploration costs were primarily attributed to extension activities at two wells in Hokkaido and two wells in Niigata, and seismic surveys in Akita and Yamagata. Overseas exploration costs mainly comprised exploration assessment activities in Canada and extension activities in Indonesia.

Net Sales

In fiscal year 2013, net sales in E&P totaled ¥177,423 million, accounting for 76.8% of the total. Net sales of Contract Services were ¥9,674 million, or 4 2% of the total. Net sales of Other Businesses were ¥43,988 million, representing 19.0% of the total.

E&P

Net sales of E&P (including liquefied natural gas (LNG) and bitumen) amounted to ¥177,423 million, a decrease of ¥3,356 million year on year. This was largely attributable to lower sales volume of natural gas despite a rise in the unit sales price of natural gas, an increase in the sales volume of LNG, and a rise in the sales price of LNG.

In fiscal year 2013, the volume of crude oil sales decreased 60 thousand kiloliters to 1,335 thousand kiloliters compared with fiscal year 2012. This mainly reflected the decrease in production volume at the Yufutsu oil and gas field in Hokkaido in Japan. However, total crude oil sales decreased ¥1,919 million year on year to ¥78,834 million, due to a reduced sales volume, despite rising sales prices resulting from soaring oil prices and the yen's depreciation.

The volume of natural gas sales decreased 274 million cubic meters year on year to 1,455 million. The unit sales price rose ¥4.63 per cubic meter to ¥47.95 per cubic meter. As a result, sales of natural gas declined ¥5,162 million to ¥69,795 million compared with the previous fiscal year. The main reason for the decreased volume of natural gas sales was the decline in domestic commercial-use sales.

Sales volume for LNG increased 13 thousand tons year on year to 229 thousand tons. LNG sales grew ¥3,168 million to ¥19,098 million.

Sales volume for bitumen decreased 33 thousand kiloliters compared with fiscal year 2012 to 349 thousand kiloliters. In monetary terms, however, bitumen sales increased ¥557 million year on year to ¥9,694 million.

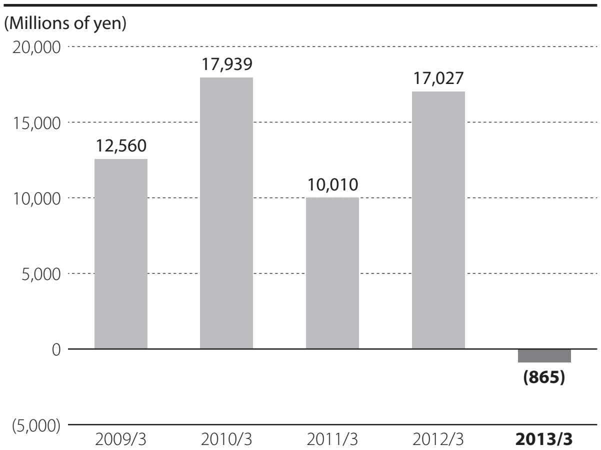
Contract Services

During fiscal year 2013, net sales of Contract Services were ¥9,674 million, up ¥1,314 million year on year. This ostensibly comprised orders for drilling and geological surveys.

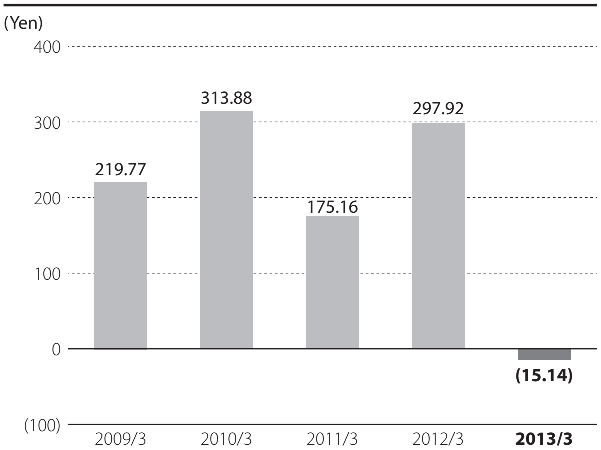
Other Businesses

Net sales of Other Businesses, such as the sale of oil products including liquefied petroleum gas (LPG) and fuel oil as well as sales from the transportation of natural gas and oil products on consignment, together with other subcontracted tasks increased ¥2,490 million compared with fiscal year 2012 to ¥43,988 million. This was mainly due to increased income from the transportation of natural gas on consignment.

Net Income (Loss)



Net Income (Loss) per Share



Operating Expenses

The cost of sales decreased ¥2,283 million compared with the previous fiscal year to ¥172,075 million. This decrease was principally attributable to a fall in depreciation and amortization expenses in Japan and a drop in variable costs accompanying the reduced sales volume of natural gas.

Please see the Exploration Activities section for information on exploration expenses on page 39.

Selling, general and administrative (SG&A) expenses decreased from the previous fiscal year, falling ¥1,409 million to ¥32,017 million.

As a result of these factors, operating income decreased ¥1,139 million compared with fiscal year 2012 to ¥13,906 million.

Loss before Income Taxes and Minority Interests

Other income posted an increase over fiscal year 2012 primarily due to higher dividend payments received from SODECO, upturns to a return on investment and foreign exchange gain from equity method investment losses and foreign exchange losses, and the posting of a gain on transfer of interest accompanying the transfer of bitumen interest by Japan Canada Oil Sands Limited.

Other expenses were incurred owing to such factors as the aforementioned equity method investment losses and foreign exchange losses, losses from the sales of securities and the posting of an impairment loss on business assets related to production operations in the Yufutsu gas field in Hokkaido. As a result, a loss before income taxes and minority interests was incurred of ¥6,439 million, representing a drop of ¥28,910 million compared to fiscal year 2012.

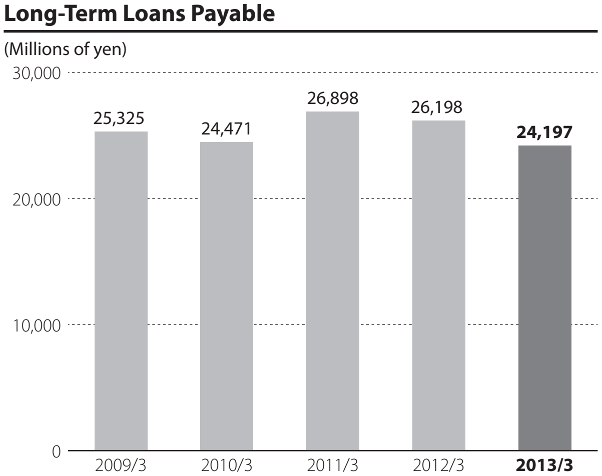
Net Income (Loss)

For the fiscal year under review, the total of current and deferred income taxes was a negative ¥6,927 million, a difference of ¥11,674 million from the previous fiscal year. This figure was principally attributable to a decrease in current taxes, mainly due to the posting of deferred taxes accompanying the posting of the aforementioned impairment losses.

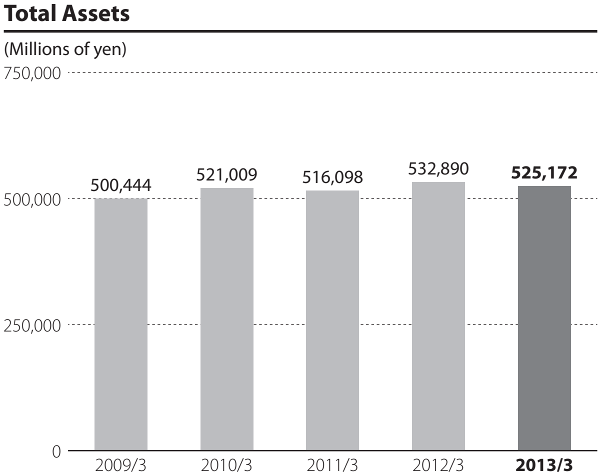
Minority interests amounted to ¥1,352 million, an increase of ¥655 million from the previous fiscal year.

Accounting for the above factors, after deducting income taxes (following the application of tax effect accounting) and minority interests, the Company recorded a net loss of ¥865 million, down ¥17,892 million year on year.

Long-Term Loans Payable



Total Assets



Analysis of Financial Position and Cash Flows

Balance Sheet

Total assets at the end of fiscal year 2013 stood at ¥525,172 million, a decrease of ¥7,717 million year on year. Total current assets increased ¥23,591 million to ¥188,645 million and total noncurrent assets had decreased ¥31,309 million to ¥336,526 million.

Primary fluctuations in current assets were the increase in cash and deposits, the increase in notes and accounts receivable, the increase in short-term investment securities due to funding operations, the increase in raw materials and supplies, and the decrease in short-term loans receivable as a result of repo transactions.

In total noncurrent assets, total property, plant and equipment had decreased ¥42,175 million. This was due to the posting of the aforementioned impairment loss on business assets related to the Yufutsu gas field in Hokkaido. Total investments and other assets had increased ¥7,628 million compared with the end of the previous fiscal year. This is because long-term loans receivable to equity-method affiliates Kangean Energy Indonesia Ltd. (KEI) and EMP Exploration (Kangean) Ltd. (EMPE), deferred tax assets, and investments relating to development of the Garraf oilfield in Iraq, all increased, although there were decreases in investment securities due to the market devaluation of stocks including INPEX CORPORATION.

Total liabilities at the fiscal year-end had decreased ¥4,570 million year on year to ¥121,547 million. Although notes and accounts payable-trade had increased, loans had decreased due to the repayment of long-term loans payable, and deferred tax liabilities had declined due mainly to the aforementioned decrease in investment securities.

Total net assets had decreased ¥3,147 million year on year to ¥403,625 million. This reflected such factors as decreases in retained earnings and valuation difference on available-for-sale securities, offset by increases in foreign currency translation adjustment and in minority interests due to a third-party allocation of new shares by Japex Garraf Ltd.

As a result, the equity ratio as of March 31, 2013 was 72.8%.

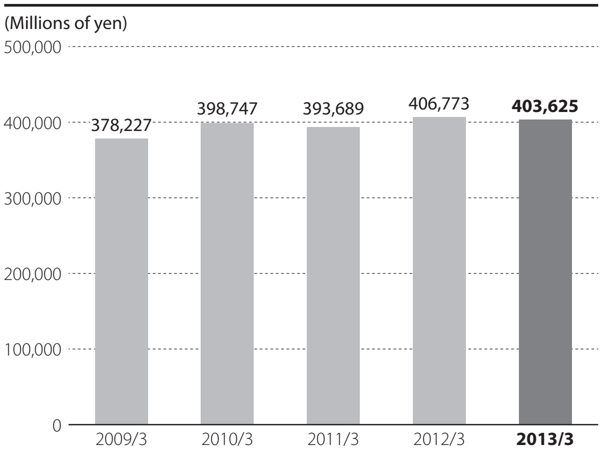
Cash Flows

As of March 31, 2013, cash and cash equivalents (hereinafter "net cash") totaled ¥112,639 million, up ¥12,836 million compared with the end of the previous fiscal year. Below is a summary of cash flows for each activity.

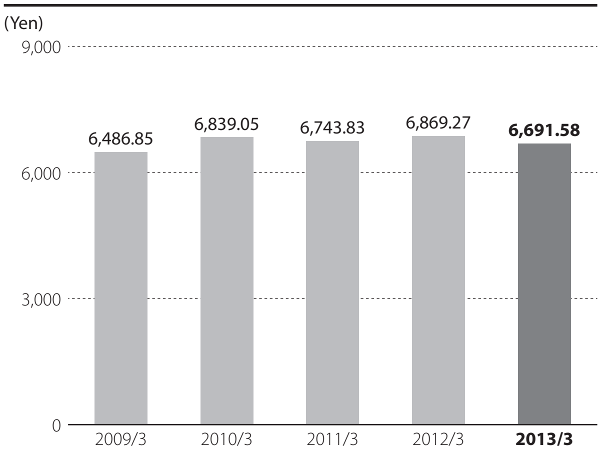
Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥34,254 million. The main factors were ¥6,439 million for loss before income taxes and minority interests, ¥16,294 million for depreciation and amortization, ¥37,094 million for impairment loss, ¥11,713 million for interest and dividends income, ¥8,957 million difference between notes and accounts payable—trade and notes and accounts receivable—trade, ¥2,829 million for gain on transfer of mining rights, and ¥5,125 million for income taxes paid.

Net Assets



Net Assets per Share



Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥14,836 million. Major cash outflows were ¥18,124 million for payments into time deposits, ¥10,195 million for the purchase of property, plant and equipment, ¥5,623 million for the acquisition of investment securities, ¥12,061 million in payments of recoverable accounts and ¥4,061 million for payments of loans receivable. These items exceeded such cash inflows as ¥15,784 million in proceeds from withdrawal of time deposits, ¥3,300 million in proceeds from sales and redemption of short-term investment securities, and ¥12,844 million in interest and dividends income received.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥7,177 million. The principal cash outflows were ¥11,141 million for repayment of long-term loans payable, and ¥2,286 million for cash dividends paid. This exceeded the proceeds from long-term loans payable of ¥1,875 million to be channeled as investments in KEI and EMPE, and proceeds from stock issuance to minority shareholders due to a third-party allocation of new shares by Japex Garraf Ltd.

Financial Policy

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

Working capital is primarily procured using internal funds. Some consolidated subsidiaries, however, when temporarily in need of working capital as a result of gaps in the timing between fixed payments and accounts receivable, procure working capital from intercompany loans, or if this is not sufficient, then through short-term debt. In addition, the Company also maintains an overdraft facility in the amount of ¥27,130 million signed with six of its banking partners to be used for working capital when required. The Company, however, had not executed any short-term debt as of the end of fiscal years 2012 and 2013.

Funds used for capital investments and overseas investments are also primarily procured using internal funds. When the investment amount warrants, however, long-term debt financing is occasionally used in light of the quality of the project and the balance of the Company's liquidity in hand. The total of long-term loans payable scheduled to mature within one year as of the end of fiscal year 2013 and other long-term loans payable was down ¥6,074 million compared with the end of fiscal year 2012 to ¥28,761 million. A breakdown of long-term loans payable includes ¥2,332 million for the Shiroishi–Koriyama gas pipeline construction project, and ¥26,429 million for the development of the Kangean Block in Indonesia.

In addition, as of the end of fiscal year 2013, the JAPEX Group maintained contingent liabilities totaling ¥35,123 million for guarantees of bank and other financing used for operating capital of overseas project companies and for employee home loans. Provisions for these obligations, however, ensure adequate liquidity through cash on hand and marketable securities.

CONSOLIDATED BALANCE SHEET

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2013**	2012	**2013**
Current assets:			
Cash and deposits (Notes 10 and 19)	**¥ 53,870**	¥ 29,805	**$ 573,085**
Notes and accounts receivable-trade (Note 10)	**32,337**	27,392	**344,010**
Short-term investment securities (Notes 4, 10 and 19)	**53,414**	51,870	**568,234**
Merchandise and finished goods (Note 3)	**4,490**	4,407	**47,765**
Work in process (Note 3)	**77**	99	**819**
Raw materials and supplies (Note 3)	**7,007**	4,952	**74,542**
Deferred tax assets (Note 6)	**1,210**	1,722	**12,872**
Short-term loans receivable (Note 10)	**31,418**	39,295	**334,234**
Other	**4,850**	5,509	**51,595**
Less — allowance for doubtful accounts	**(31)**	(1)	**(329)**
Total current assets	**188,645**	165,054	**2,006,861**
Noncurrent assets:			
Property, plant and equipment (Note 16):			
Land	**12,175**	15,097	**129,521**
Buildings and structures	**149,528**	154,526	**1,590,723**
Wells	**71,121**	71,662	**756,606**
Machinery, equipment and vehicles	**113,055**	133,791	**1,202,712**
Construction in progress	**2,957**	708	**31,457**
Other	**18,932**	19,870	**201,404**
Less — accumulated depreciation	**(277,087)**	(262,797)	**(2,947,734)**
Total property, plant and equipment	**90,683**	132,859	**964,712**
Intangible assets:			
Other	**10,394**	7,156	**110,574**
Total intangible assets	**10,394**	7,156	**110,574**
Investments and other assets:			
Investment securities (Notes 4 and 10)	**177,304**	192,726	**1,886,212**
Long-term loans receivable (Note 10)	**30,331**	23,407	**322,670**
Deferred tax assets (Note 6)	**5,959**	878	**63,393**
Other	**26,515**	15,439	**282,074**
Less — allowance for doubtful accounts	**(31)**	(38)	**(329)**
Less — allowance for overseas investment loss	**(4,630)**	(4,593)	**(49,255)**
Total investments and other assets	**235,449**	227,820	**2,504,776**
Total noncurrent assets	**336,526**	367,836	**3,580,063**
Total assets	**¥ 525,172**	¥ 532,890	**$ 5,586,936**

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 1) 2013
Current liabilities:			
Notes and accounts payable-trade (Note 10)	**¥ 18,947**	¥ 7,251	**$ 201,563**
Provision for directors' bonuses	**23**	94	**244**
Provision for loss on disaster	**1**	115	**10**
Other (Notes 5 and 6)	**22,182**	25,516	**235,978**
Total current liabilities	**41,155**	32,977	**437,819**
Noncurrent liabilities:			
Long-term loans payable (Notes 5 and 10)	**24,197**	26,198	**257,414**
Deferred tax liabilities (Note 6)	**31,983**	42,601	**340,244**
Provision for retirement benefits (Note 7)	**6,938**	7,129	**73,808**
Provision for directors' retirement benefits	**802**	745	**8,531**
Asset retirement obligations (Notes 2(16) and 12)	**10,858**	9,670	**115,510**
Other (Note 5)	**5,611**	6,795	**59,691**
Total noncurrent liabilities	**80,391**	93,140	**855,223**
Total liabilities	**121,547**	126,117	**1,293,053**
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, 2013 and 2012	**14,288**	14,288	**152,000**
Retained earnings	**291,990**	294,323	**3,106,276**
Treasury stock; 2,139 shares as of March 31, 2013 and 2012	**(10)**	(10)	**(106)**
Total shareholders' equity	**306,268**	308,601	**3,258,170**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**78,310**	89,366	**833,085**
Deferred gains or losses on hedges	**226**	20	**2,404**
Foreign currency translation adjustment	**(2,362)**	(5,391)	**(25,127)**
Total accumulated other comprehensive income	**76,173**	83,995	**810,351**
Minority interests	**21,183**	14,176	**225,351**
Total net assets	**403,625**	406,773	**4,293,882**
Total liabilities and net assets	**¥ 525,172**	¥ 532,890	**$ 5,586,936**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Net sales	**¥ 231,086**	¥ 230,638	**$ 2,458,361**
Cost of sales (Note 3)	**172,075**	174,359	**1,830,585**
Gross profit	**59,010**	56,278	**627,765**
Exploration expenses	**13,086**	7,805	**139,212**
Selling, general and administrative expenses (Note 15)	**32,017**	33,426	**340,606**
Operating income	**13,906**	15,045	**147,936**
Other income (expenses):			
Interest income	**2,085**	1,368	**22,180**
Dividends income	**9,628**	5,507	**102,425**
Gain (loss) on sales of securities, net	**220**	474	**2,340**
Foreign exchange gains (losses)	**1,534**	(193)	**16,319**
Interest expenses	**(275)**	(219)	**(2,925)**
Loss on valuation of securities	**(1)**	(360)	**(10)**
Loss on valuation of derivatives	**(208)**	(4)	**(2,212)**
Equity in losses of affiliates	**–**	(408)	**–**
Gain on sales of noncurrent assets	**53**	140	**563**
Subsidy income	**345**	–	**3,670**
Gain on transfer of mining rights	**2,829**	–	**30,095**
Insurance income	–	620	–
Loss on retirement of noncurrent assets	**(667)**	(460)	**(7,095)**
Impairment loss (Note 16)	**(37,094)**	–	**(394,617)**
Loss on disaster (Note 2(17))	**–**	(7)	**–**
Other, net	**1,205**	967	**12,819**
	(20,346)	7,425	**(216,446)**
Income (loss) before income taxes and minority interests	**(6,439)**	22,471	**(68,500)**
Income taxes (Note 6)**:**			
Income taxes-current	**3,352**	3,709	**35,659**
Income taxes-deferred	**(10,279)**	1,037	**(109,351)**
	(6,927)	4,746	**(73,691)**
Income before minority interests	**487**	17,724	**5,180**
Minority interests in income	**1,352**	696	**14,382**
Net income (loss) (Note 18)	**¥ (865)**	¥ 17,027	**$ (9,202)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Income before minority interests	**¥ 487**	¥ 17,724	**$ 5,180**
Other comprehensive income (Note 20)**:**			
Valuation difference on available-for-sale securities	**(11,043)**	(6,191)	**(117,478)**
Deferred gains or losses on hedges	**221**	(10)	**2,351**
Foreign currency translation adjustment	**3,389**	(1,414)	**36,053**
Share of other comprehensive income of associates accounted for using equity method	**(12)**	(154)	**(127)**
Total other comprehensive income	**(7,444)**	(7,770)	**(79,191)**
Comprehensive income	**¥ (6,957)**	¥ 9,953	**$ (74,010)**
Comprehensive income attributable to (Note 20)**:**			
Owners of the parent	**¥ (8,709)**	¥ 9,455	**$ (92,648)**
Minority interests	**1,751**	497	**18,627**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Shareholders' equity			
Capital stock			
Balance at the beginning of the period	**¥ 14,288**	¥ 14,288	**$ 152,000**
Balance at the end of the period	**¥ 14,288**	¥ 14,288	**$ 152,000**
Retained earnings			
Balance at the beginning of the period	**¥ 294,323**	¥ 279,582	**$ 3,131,095**
Changes of items during the period:			
Dividends from surplus	**(2,286)**	(2,286)	**(24,319)**
Net income (loss)	**(865)**	17,027	**(9,202)**
Change of scope of equity method	**817**	–	**8,691**
Total changes of items during the period	**(2,333)**	14,740	**(24,819)**
Balance at the end of the period	**¥ 291,990**	¥ 294,323	**$ 3,106,276**
Treasury stock			
Balance at the beginning of the period	**¥ (10)**	¥ (10)	**$ (106)**
Changes of items during the period:			
Purchase of treasury stock	**–**	(0)	**–**
Total changes of items during the period	**–**	(0)	**–**
Balance at the end of the period	**¥ (10)**	¥ (10)	**$ (106)**
Total shareholders' equity			
Balance at the beginning of the period	**¥ 308,601**	¥ 293,861	**$ 3,282,989**
Changes of items during the period:			
Dividends from surplus	**(2,286)**	(2,286)	**(24,319)**
Net income (loss)	**(865)**	17,027	**(9,202)**
Change of scope of equity method	**817**	–	**8,691**
Purchase of treasury stock	–	(0)	–
Total changes of items during the period	**(2,333)**	14,740	**(24,819)**
Balance at the end of the period	**¥ 306,268**	¥ 308,601	**$ 3,258,170**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of the period	**¥ 89,366**	¥ 95,518	**$ 950,702**
Changes of items during the period:			
Net changes of items other than shareholders' equity	**(11,056)**	(6,152)	**(117,617)**
Total changes of items during the period	**(11,056)**	(6,152)	**(117,617)**
Balance at the end of the period	**¥ 78,310**	¥ 89,366	**$ 833,085**
Deferred gains or losses on hedges			
Balance at the beginning of the period	**¥ 20**	¥ 17	**$ 212**
Changes of items during the period:			
Net changes of items other than shareholders' equity	**206**	3	**2,191**
Total changes of items during the period	**206**	3	**2,191**
Balance at the end of the period	**¥ 226**	¥ 20	**$ 2,404**
Foreign currency translation adjustment			
Balance at the beginning of the period	**¥ (5,391)**	¥ (3,968)	**$ (57,351)**
Changes of items during the period:			
Net changes of items other than shareholders' equity	**3,028**	(1,422)	**32,212**
Total changes of items during the period	**3,028**	(1,422)	**32,212**
Balance at the end of the period	**¥ (2,362)**	¥ (5,391)	**$ (25,127)**
Total accumulated other comprehensive income			
Balance at the beginning of the period	**¥ 83,995**	¥ 91,566	**$ 893,563**
Changes of items during the period:			
Net changes of items other than shareholders' equity	**(7,822)**	(7,571)	**(83,212)**
Total changes of items during the period	**(7,822)**	(7,571)	**(83,212)**
Balance at the end of the period	**¥ 76,173**	¥ 83,995	**$ 810,351**
Minority interests			
Balance at the beginning of the period	**¥ 14,176**	¥ 8,261	**$ 150,808**
Changes of items during the period:			
Net changes of items other than shareholders' equity	**7,007**	5,914	**74,542**
Total changes of items during the period	**7,007**	5,914	**74,542**
Balance at the end of the period	**¥ 21,183**	¥ 14,176	**$ 225,351**
Total net assets			
Balance at the beginning of the period	**¥ 406,773**	¥ 393,689	**$ 4,327,372**
Changes of items during the period:			
Dividends from surplus	**(2,286)**	(2,286)	**(24,319)**
Net income (loss)	**(865)**	17,027	**(9,202)**
Change of scope of equity method	**817**	–	**8,691**
Purchase of treasury stock	**–**	(0)	–
Net changes of items other than shareholders' equity	**(814)**	(1,656)	**(8,659)**
Total changes of items during the period	**(3,147)**	13,083	**(33,478)**
Balance at the end of the period	**¥ 403,625**	¥ 406,773	**$ 4,293,882**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Cash provided by (used in) operating activities:			
Income (loss) before income taxes and minority interests	**¥ (6,439)**	¥ 22,471	**$ (68,500)**
Depreciation and amortiza ion	**16,294**	23,902	**173,340**
Impairment loss	**37,094**	–	**394,617**
Loss on retirement of property, plant and equipment	**656**	457	**6,978**
Loss (gain) on valua ion of short-term and long term investment securities	**1**	360	**10**
Increase (decrease) in allowance for doubtful accounts	**21**	(3)	**223**
Increase (decrease) in provision for retirement benefits	**(190)**	7	**(2,021)**
Increase (decrease) in provision for directors' retirement benefits	**56**	99	**595**
Increase (decrease) in allowance for overseas investment loss	**37**	(697)	**393**
Interest and dividends income	**(11,713)**	(6,876)	**(124,606)**
Interest expenses	**275**	219	**2,925**
Loss (gain) on sales of short-term and long term investment securities	**(220)**	(474)	**(2,340)**
Equity in (earnings) losses of affiliates	**(753)**	408	**(8,010)**
Gain on transfer of mining rights	**(2,829)**	–	**(30,095)**
Decrease (increase) in notes and accounts receivable-trade	**(4,744)**	(6,236)	**(50,468)**
Decrease (increase) in inventories	**(2,115)**	758	**(22,500)**
Increase (decrease) in notes and accounts payable-trade	**13,701**	3,910	**145,755**
Increase (decrease) in accrued consumption taxes	**351**	74	**3,734**
Other, net	**(104)**	848	**(1,106)**
Subtotal	**39,380**	39,229	**418,936**
Income taxes (paid) refund	**(5,125)**	(2,057)	**(54,521)**
Net cash provided by (used in) operating activities	**34,254**	37,172	**364,404**
Cash provided by (used in) investing activities:			
Payments into time deposits	**(18,124)**	(19,095)	**(192,808)**
Proceeds from withdrawal of time deposits	**15,784**	19,446	**167,914**
Purchase of short-term investment securities	**(801)**	(401)	**(8,521)**
Proceeds from sales and redemption of short-term investment securi ies	**3,300**	1,900	**35,106**
Purchase of property, plant and equipment	**(10,195)**	(11,618)	**(108,457)**
Proceeds from sales of property, plant and equipment	**49**	191	**521**
Purchase of intangible assets	**(3,852)**	(217)	**(40,978)**
Payments for asset retirement obligations	**(72)**	(447)	**(765)**
Purchase of investment securities	**(5,623)**	(1,586)	**(59,819)**
Proceeds from sales and redemption of investment securities	**2,446**	4,194	**26,021**
Payments of recoverable accounts	**(12,061)**	(6,406)	**(128,308)**
Payments of loans receivable	**(4,061)**	(8,018)	**(43,202)**
Collec ion of loans receivable	**2,574**	115	**27,382**
Interest and dividends income received	**12,844**	7,453	**136,638**
Proceeds from dividends of residual property	**111**	472	**1,180**
Proceeds from transfer of mining rights	**2,829**	–	**30,095**
Other, net	**17**	65	**180**
Net cash provided by (used in) investing activities	**(14,836)**	(13,950)	**(157,829)**
Cash provided by (used in) financing activities:			
Proceeds from long-term loans payable	**1,875**	7,895	**19,946**
Repayment of long-term loans payable	**(11,141)**	(778)	**(118,521)**
Purchase of treasury stock	–	(0)	–
Cash dividends paid	**(2,286)**	(2,286)	**(24,319)**
Cash dividends paid to minority shareholders	**(177)**	(265)	**(1,882)**
Interest expenses paid	**(308)**	(188)	**(3,276)**
Repayments of lease obligations	**(568)**	(270)	**(6,042)**
Proceeds from stock issuance to minority shareholders	**5,428**	5,908	**57,744**
Repayments to minority shareholders	–	(149)	–
Other, net	–	(9)	–
Net cash provided by (used in) financing activities	**(7,177)**	9,856	**(76,351)**
Effect of exchange rate change on cash and cash equivalents	**596**	(101)	**6,340**
Net increase (decrease) in cash and cash equivalents	**12,836**	32,976	**136,553**
Cash and cash equivalents at beginning of period	**99,803**	66,826	**1,061,734**
Cash and cash equivalents at end of period (Note 19)	**¥ 112,639**	¥ 99,803	**$ 1,198,287**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2013

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Japan Petroleum Exploration Co., Ltd. (the "Company") and 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 2012 financial statements to conform to the classifications used in 2013.

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 ¥94 = U.S. $1, the approximate rate of exchange at March 29, 2013, 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 affiliates

The consolidated financial statements as of and for the year ended March 31, 2013 include the accounts of the Company and its 22 (21 in 2012) 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, 2013, 13 (12 in 2012) affiliates are accounted for using the equity method.

Investments in the remaining unconsolidated subsidiaries and affiliates 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 associates 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.

Associates 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 associates' respective fiscal year-end.

(2) Foreign currency translation

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

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

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

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

(3) Cash and cash equivalents

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

(4) Short-term investment 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 and raw materials and supplies are mainly stated at the lower of cost determined by the moving average method, or net selling value.

(6) Property, plant and equipment and depreciation (excluding leased assets)

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

(Change in accounting policy)

(Change in accounting policy that is difficult to distinguish from change in accounting estimate)

Effective the year ended March 31, 2013, due to the revision of the Corporation Tax Act, the Company and its domestic consolidated subsidiaries changed their depreciation method to the method prescribed in the revised Corporation Tax Act for property, plant and equipment acquired on or after April 1, 2012.

This change has little effect on operating income and loss before income taxes and minority interests for the year ended March 31, 2013.

(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.

(8) Deferred assets

Development expenses are charged to income when incurred.

(9) Leased assets

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

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

(10) Impairment on noncurrent assets

The Group reviews its noncurrent assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable.

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

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

(11) Provision for retirement benefits

The provision for retirement benefits for employees is recorded based on the estimated amounts of retirement benefit obligation and the fair value of the pension plan assets at the end of the fiscal year, adjusted for unrecognized actuarial gains and losses and unrecognized prior service benefits and costs. The expected retirement benefit obligation is allocated to each period by the straight-line method over the estimated years of service of the eligible employees.

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

Prior service benefits and costs are recognized as income or expense by the straight-line method over a certain period (10 years), which is within the average remaining years of service of the employees, from the fiscal year in which such benefits or costs occur.

(12) Provision for directors' retirement benefits

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

(13) 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.

(14) Provision for directors' bonuses

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

(15) 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.

(16) Asset retirement obligations

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

(17) Provision for loss on disaster

The provision for loss on disaster is stated at the estimated amount for the restoration of fixed assets damaged by the Great East Japan Earthquake at the end of the fiscal year.

(18) Hedge accounting

Deferral hedge accounting is adopted for hedge transactions.

Interest rate swaps are accounted for by the exceptional treatment if the interest rate swaps meet certain criteria to adopt the treatment. 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:	Interest rate swaps, foreign exchange forward contracts, foreign currency deposits, crude oil price swaps, and crude oil collars
Hedged items:	Long-term loans payable, accounts payable-trade, accounts payable-other, and crude oil sales

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

(19) 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.

(20) Research and development expenses

Research and development expenses are charged to income when incurred.

(21) Income taxes

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

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

(22) New accounting standards but not yet effective

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, issued on May 17, 2012) (the "Accounting Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012) (the "Guidance")

(a) Overview

Under the Accounting Standard, actuarial gains and losses and prior service costs shall be recognized within net assets of the consolidated balance sheet, after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset.

(b) Date of application

The Group will adopt the Accounting Standard and Guidance from the year ending March 31, 2014. The Accounting Standard and Guidance will not be applied retrospectively to consolidated financial statements in prior periods as there are transitional provisions in the Accounting Standard and Guidance.

(c) Effect of application

The Company is currently evaluating the effect these modifications will have on its consolidated financial statements.

(23) Supplemental information

Completion of participation in natural gas development and production project and LNG project in Canada

As released on March 4, 2013, the Company entered into a Heads of Agreement with Petroliam Nasional Berhad ("PETRONAS," including its subsidiaries), the national oil company of Malaysia, to participate in a natural gas development and production project in British Columbia, Canada and a planned LNG (liquefied natural gas) project on the western coast of the same province, both of which are undertaken by PETRONAS.

Based on the Heads of Agreement, the Company entered into a formal agreement with PETRONAS through JAPEX Montney Ltd. (a juridical person in Canada), a consolidated subsidiary of the Company, on April 26, 2013 and

Consequently, the Company acquired a 10% interest of the natural gas blocks in North Montney, British Columbia as well as a 10% interest of business of production and export of LNG (Pacific Northwest LNG Project, estimated LNG production volume: 12MMtonnes/y), which is under contemplation located on the western coast of the same province, including a commitment to offtake 1.2MMtonnes/y of LNG, which is equivalent to the 10% interest.

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, 2013 and 2012 was ¥1,050 million ($11,170 thousand) and ¥526 million, respectively.

4. Short-term Investment Securities and Investment Securities

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

(1) Information of available-for-sale securities as of March 31, 2013 and 2012 is as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2013	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥ 134,638**	**¥ 22,037**	**¥ 112,601**	**$ 1,432,319**	**$ 234,436**	**$ 1,197,882**
Debt securities:						
Government and municipal bonds	**510**	**476**	**33**	**5,425**	**5,063**	**351**
Corporate bonds	**2,103**	**2,097**	**5**	**22,372**	**22,308**	**53**
Other debt securities	**1,325**	**1,303**	**22**	**14,095**	**13,861**	**234**
Other	**1,535**	**1,531**	**3**	**16,329**	**16,287**	**31**
Subtotal	**140,113**	**27,446**	**112,666**	**1,490,563**	**291,978**	**1,198,574**
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**198**	**200**	**(1)**	**2,106**	**2,127**	**(10)**
Debt securities:						
Government and municipal bonds	**518**	**548**	**(30)**	**5,510**	**5,829**	**(319)**
Corporate bonds	**15,484**	**15,498**	**(13)**	**164,723**	**164,872**	**(138)**
Other debt securities	**49**	**50**	**(0)**	**521**	**531**	**(0)**
Other	**36,229**	**36,230**	**(1)**	**385,414**	**385,425**	**(10)**
Subtotal	**52,481**	**52,527**	**(46)**	**558,308**	**558,797**	**(489)**
Total	**¥ 192,595**	**¥ 79,974**	**¥ 112,620**	**$ 2,048,882**	**$ 850,787**	**$ 1,198,085**

	Millions of yen		
March 31, 2012	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 150,813	¥ 22,099	¥ 128,714
Debt securities:			
Government and municipal bonds	152	150	2
Corporate bonds	2,021	2,008	12
Other debt securities	683	660	22
Other	1,674	1,661	13
Subtotal	155,345	26,580	128,765
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	633	650	(16)
Debt securities:			
Government and municipal bonds	800	882	(82)
Corporate bonds	17,467	17,503	(35)
Other debt securities	1,596	1,607	(10)
Other	33,477	33,479	(1)
Subtotal	53,976	54,122	(146)
Total	¥ 209,321	¥ 80,703	¥ 128,618

Unlisted equity securities, carrying values of which as of March 31, 2013 and 2012 were ¥4,225 million ($44,946 thousand) and ¥7,494 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, 2013 and 2012 is as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2013	Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss
Available-for-sale securities:						
Equity securities	**¥ 665**	**¥ 341**	**¥ 186**	**$ 7,074**	**$ 3,627**	**$ 1,978**
Debt securities:						
Government and municipal bonds	**–**	**–**	**–**	**–**	**–**	**–**
Corporate bonds	**98**	**0**	**–**	**1,042**	**0**	**–**
Other debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Other	**474**	**69**	**0**	**5,042**	**734**	**0**
Total	**¥ 1,239**	**¥ 411**	**¥ 186**	**$ 13,180**	**$ 4,372**	**$ 1,978**

	Millions of yen		
March 31, 2012	Sales amount	Aggregate gain	Aggregate loss
Available-for-sale securities:			
Equity securities	¥ 1,864	¥ 405	¥ 318
Debt securities:			
Government and municipal bonds	249	–	72
Corporate bonds	1,192	0	0
Other debt securities	296	58	–
Other	1,376	417	16
Total	¥ 4,979	¥ 881	¥ 407

(3) During the years ended March 31, 2013 and 2012, the Group recorded losses on valuation of available-for-sale securities in the amounts of ¥16 million ($170 thousand) and ¥703 million, respectively. For unlisted equity securities whose fair value is extremely difficult to determine, amounting to ¥14 million ($148 thousand) and ¥342 million as of March 31, 2013 and 2012, allowance for overseas investment loss was recorded, and there is no impact on the accompanying consolidated financial statements. In addition, if the market value of the security declines by 50% or more from its acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

(4) Investments in unconsolidated subsidiaries and affiliates at March 31, 2013 and 2012 were ¥33,898 million ($360,617 thousand) and ¥27,781 million, respectively.

5. Long-term Loans Payable and Lease Obligations

Long-term loans payable at March 31, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Loans from banks and others, at interest rates ranging from 0.61% to 1.83%:			
Unsecured	**¥ 28,761**	¥ 34,835	**$ 305,968**
	28,761	34,835	**305,968**
Less — current portion	**(4,563)**	(8,636)	**(48,542)**
	¥ 24,197	¥ 26,198	**$ 257,414**

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2013 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	**¥ 4,563**	**$ 48,542**
2015	**4,563**	**48,542**
2016	**4,561**	**48,521**
2017	**3,785**	**40,265**
2018 and thereafter	**11,286**	**120,063**
Total	**¥ 28,761**	**$ 305,968**

The Company and certain consolidated subsidiaries have entered into overdraft agreements and loan commitment agreements amounting to ¥27,130 million ($288,617 thousand) and ¥26,838 million with six banks at March 31, 2013 and 2012, respectively. There were no borrowings outstanding under the overdraft agreements and loan commitment agreements as of March 31, 2013 and 2012.

Lease obligations included in noncurrent liabilities-other at March 31, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of U S do la s
	2013	2012	**2013**
Lease obligations	**¥ 4,715**	¥ 5 162	**$ 50,159**
Less — current portion	**(532)**	(552)	**(5,659)**
	¥ 4 183	¥ 4 609	**$ 44,500**

The aggregate annual maturities of lease obligations subsequent to March 31, 2013 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	**¥ 532**	**$ 5,659**
2015	**505**	**5,372**
2016	**476**	**5,063**
2017	**445**	**4,734**
2018 and thereafter	**2,755**	**29,308**
Total	**¥ 4,715**	**$ 50,159**

6. Income Taxes

Income taxes imposed on the Company and its domestic consolidated subsidiaries comprise corporation, inhabitants and enterprise taxes. The statutory tax rate applicable to the Company was approximately 33.3% and 36.2% for the years ended March 31, 2013 and 2012, respectively. Income taxes of three foreign consolidated subsidiaries 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, 2013 and 2012 differ from the statutory tax rates for the following reasons:

	2013	2012
Statutory tax rates	**33.3%**	36.2%
Effect of:		
Unrecognized tax effect accounting on net tax loss carried forward of consolidated subsidiaries	**(20.3)**	1.0
Exploration cost deducted for income tax purposes	**47.2**	(9.2)
Dividends income not taxable for income tax purposes	**14.8**	(3.6)
Utilization of tax loss carried forward	**0.3**	(2.1)
Expenses not deductible for income tax purposes	**(1.8)**	0.8
Consolidation adjustment for equity method	**3.9**	0.7
Change in valuation allowance	**23.9**	(0.7)
Loss on valuation of subsidiaries' stocks	**(13.7)**	–
Gain on non-taxable donation	**17.4**	(0.1)
Foreign tax credits	**4.3**	(0.5)
Other, net	**(1.7)**	(1.4)
Effective tax rates	**107.6%**	21.1%

The significant components of deferred tax assets and liabilities at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Deferred tax assets:			
Allowance for overseas investment loss	**¥ 2,053**	¥ 1,283	**$ 21,840**
Net tax loss carried forward	**5,482**	8,410	**58,319**
Provision for retirement benefits	**2,243**	2,348	**23,861**
Depreciation	**13,618**	2,934	**144,872**
Provision for directors' retirement benefits	**281**	259	**2,989**
Asset retirement obligations	**2,480**	2,470	**26,382**
Impairment loss on noncurrent assets	**1,031**	830	**10,968**
Other	**10,459**	8,365	**111,265**
Subtotal	**37,651**	26,902	**400,542**

Valuation allowance	**(14,909)**	(15,332)	**(158,606)**
Total deferred tax assets	**22,741**	11,570	**241,925**
Deferred tax liabilities:			
Reserve for exploration	**(10,269)**	(10,592)	**(109,244)**
Valuation difference on available-for-sale securities	**(34,313)**	(39,266)	**(365,031)**
Reserve for advanced depreciation of noncurrent assets	**(107)**	(121)	**(1,138)**
Other	**(3,202)**	(1,933)	**(34,063)**
Total deferred tax liabilities	**(47,892)**	(51,913)	**(509,489)**
Net deferred tax liabilities	**¥ (25,150)**	¥ (40,343)	**$ (267,553)**

7. 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.

The following table sets forth the funded and accrued status of the plans of the Company's and its consolidated subsidiaries' defined benefit plans, and the amounts of provision for retirement benefits in the consolidated balance sheets, as of March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Retirement benefit obligation	**¥ (19,473)**	¥ (17,467)	**$ (207,159)**
Plan assets at fair value	**10,748**	8,984	**114,340**
Unfunded retirement benefit obligation	**(8,724)**	(8,482)	**(92,808)**
Unrecognized actuarial gains or losses	**2,418**	2,031	**25,723**
Unrecognized prior service benefits and costs	**(632)**	(677)	**(6,723)**
Provision for retirement benefits	**¥ (6,938)**	¥ (7,129)	**$ (73,808)**

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

The components of retirement benefits expenses for the years ended March 31, 2013 and 2012 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Service cost	**¥ 877**	¥ 826	**$ 9,329**
Interest cost	**319**	309	**3,393**
Expected return on plan assets	**(89)**	(80)	**(946)**
Amortization of actuarial gains or losses	**330**	381	**3,510**
Amortization of prior service benefits and costs	**(45)**	(45)	**(478)**
Other	**61**	59	**648**
Total	**¥ 1,452**	¥ 1,451	**$ 15,446**

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

The assumptions used in calculating the retirement benefit obligations as of March 31, 2013 and 2012 are as follows:

	2013	2012
Discount rates	**1.2%**	2.0%
Expected rates of return on plan assets	**1.0%**	1.0%

Note: A discount rate of 2.0% was used at the beginning of the year ended March 31, 2013. However, as a result of a reconsideration of the discount rate at March 31, 2013, the Group determined that a change in the discount rate affects the amount of retirement benefit obligation and change it to 1 2%.

8. Shareholders' Equity

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

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

9. Leases

(1) Finance leases

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

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2013 and 2012, which would be reflected in the consolidated balance sheets if finance lease accounting was applied to the finance leases currently accounted for as operating leases:

(Lessee)

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Acquisition costs:			
Machinery, equipment and vehicles	**¥ 1,034**	¥ 1,117	**$ 11,000**
Total	**¥ 1,034**	¥ 1,117	**$ 11,000**
Accumulated depreciation:			
Machinery, equipment and vehicles	**¥ 791**	¥ 763	**$ 8,414**
Total	**¥ 791**	¥ 763	**$ 8,414**
Net book value:			
Machinery, equipment and vehicles	**¥ 243**	¥ 354	**$ 2,585**
Total	**¥ 243**	¥ 354	**$ 2,585**

Lease payments relating to the finance leases accounted for as operating leases for the years ended March 31, 2013 and 2012 amounted to ¥111 million ($1,180 thousand) and ¥126 million, respectively, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms with no residual value.

Future minimum lease payments (including the amounts equivalent to interest expenses) subsequent to March 31, 2013 for the finance leases accounted for as operating leases are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥ 94	$ 1,000
2015 and thereafter	149	1,585
Total	¥ 243	$ 2,585

(Lessor)

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Acquisition costs:			
Buildings and structures	**¥ 54**	¥ 54	**$ 574**
Machinery, equipment and vehicles	**200**	200	**2,127**
Other (property, plant and equipment)	**50**	50	**531**
Total	**¥ 305**	¥ 305	**$ 3,244**
Accumulated depreciation:			
Buildings and structures	**¥ 13**	¥ 11	**$ 138**
Machinery, equipment and vehicles	**122**	102	**1,297**
Other (property, plant and equipment)	**35**	29	**372**
Total	**¥ 171**	¥ 143	**$ 1,819**
Net book value:			
Buildings and structures	**¥ 40**	¥ 43	**$ 425**
Machinery, equipment and vehicles	**77**	97	**819**
Other (property, plant and equipment)	**15**	20	**159**
Total	**¥ 133**	¥ 161	**$ 1,414**

For the years ended March 31, 2013 and 2012, the lease revenue relating to the finance leases accounted for as operating leases amounted to ¥40 million ($425 thousand) and ¥53 million, respectively. The depreciation expense of the leased assets computed by the straight-line method over the lease terms amounted to ¥28 million ($297 thousand) and ¥35 million, respectively.

Future minimum lease receivables (including the amounts equivalent to interest income) subsequent to March 31, 2013 for the finance leases accounted for as operating leases are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥ 25	$ 265
2015 and thereafter	218	2,319
Total	¥ 243	$ 2,585

(2) Operating leases

Future minimum lease payments under non-cancelable operating leases subsequent to March 31, 2013 are as follows:

(Lessee)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥ 328	$ 3,489
2015 and thereafter	1,600	17,021
Total	¥ 1,928	$ 20,510

10. Financial Instruments

(1) Overview

(a) Policy for measures relating to financial instruments

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

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

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

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

Short-term investment 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 ¥133,616 million ($1,421,446 thousand) and ¥149,383 million as of March 31, 2013 and 2012, the proportions of which to investment securities are 75.4% and 77.5%, respectively.

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

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

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

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

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

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

(c) Supplemental information on fair value of financial instruments

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

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

(2) Fair value of financial instruments

Carrying value in the consolidated balance sheets, fair value and these difference as of March 31, 2013 and 2012 are as follows. The financial instruments whose fair value is extremely difficult to determine are not included below.

			Millions of yen
March 31, 2013	Carrying value	Fair value	Dif erence
Cash and deposits	**¥ 53,870**	**¥ 54,008**	**¥ 137**
Notes nd cco nts receivable-trade	**32 337**	**32,337**	**–**
Short-term loans receivable	**31,418**	**31,418**	**–**
Short-term nvestment securities and investment securities	**204,952**	**222,494**	**17,541**
Long-term loans rece vable	**30,331**		
Allowance for doubtful accounts (*1)	**(0)**		
	30,33	**30,330**	**–**
Total assets	**¥ 352,910**	**¥ 370,589**	**¥ 17,679**
Notes and accounts payable-trade	**¥ 18,947**	**¥ 18,947**	**¥ (0)**
Long term loans payable	**24,197**	**24,278**	**(80)**
Total liabilities	**¥ 43,144**	**¥ 43,225**	**¥ (80)**
De ivative transactions (*2)	**¥ 584**	**¥ 584**	**¥ –**

			Millions of yen
March 31, 2012	Carrying value	Fair value	Dif erence
Cash and deposits	¥ 29,805	¥ 29,918	¥ 113
Notes and accounts receivable-trade	27,392	27,392	–
Short-term loans receivable	39,295	39,295	–
Short-term nvestment securities and investment securities	221,207	223,892	2,685
Long-term loans rece vable	23,407		
Allowance for doubtful accounts (*1)	(4)		
	23,403	23,403	–
Total assets	¥ 341 4	¥ 34 9	¥ 2,798
No es and ccounts payable-trade	7 25	¥ 7,251	¥ –
Long term loans payable	26,198	26,311	(112)
T tal iab lit e	¥ 33,449	¥ 33,562	¥ (112)
De vat ve ansactions (*2)	65	659	–

	Thousands of U.S. dollars		
March 31, 2013	Carrying value	Fair value	Difference
Cash and deposits	**$ 573,085**	**$ 574,553**	**$ 1,457**
Notes and accounts receivable-trade	**344,010**	**344,010**	**–**
Short-term loans receivable	**334,234**	**334,234**	**–**
Short-term investment securities and investment securities	**2,180,340**	**2,366,957**	**186,606**
Long-term loans receivable	**322,670**		
Allowance for doubtful accounts (*1)	**(0)**		
	322,659	**322,659**	**–**
Total assets	**$ 3,754,361**	**$ 3,942,436**	**$ 188,074**
Notes and accounts payable-trade	**$ 201,563**	**$ 201,563**	**$ (0)**
Long-term loans payable	**257,414**	**258,276**	**(851)**
Total liabilities	**$ 458,978**	**$ 459,840**	**$ (851)**
Derivative transactions (*2)	**$ 6,212**	**$ 6,212**	**$ –**

(*1) Allowance for doubtful accounts recognized for long-term loans receivable on an individual basis is deducted from the carrying value.

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

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 flow of principal and interest 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.

▫ **Short-term investment 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. Short-term Investment 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 changes dramatically after the loans are executed. For the receivables deemed to be uncollectible, since the estimated bad debt balance is calculated based on the present value of the estimated future cash flow and the carrying value as of the consolidated balance sheet date after deduction of the estimated bad debt balance approximates the fair value, the carrying value as of the consolidated balance sheet date minus the estimated bad debt balance is deemed as the fair value.

Liabilities

▫ **Notes and accounts payable-trade**

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

▫ **Long-term loans payable**

With regard to floating rate loans, the carrying value is deemed as the fair value since these loans reflect the market interest rates in a short period of time and the credit condition of the Group does not change dramatically after the loans are executed. For fixed rate loans, the net 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 new 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
	2013	2012	**2013**
Carrying value:			
Unlisted equity securities	**¥ 25,766**	¥ 23,390	**$ 274,106**

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

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

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

				Millions of yen
March 31, 2012	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	¥ 29,800	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	27,392	–	–	–
Short-term loans receivable	39,295	–	–	–
Short-term investment securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	–	–	500	–
Debt securities:				
Government and municipal bonds	–	725	227	–
Corporate bonds	17,381	2,007	100	–
Other debt securities	1,301	796	–	182
Other	–	40	100	–
Long-term loans receivable (*)	–	15,050	8,352	–
Total	¥ 115,171	¥ 18,619	¥ 9,280	¥ 182

				Thousands of U.S. dollars
March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**$ 573,074**	**$ –**	**$ –**	**$ –**
Notes and accounts receivable-trade	**344,010**	**–**	**–**	**–**
Short-term loans receivable	**334,234**	**–**	**–**	**–**
Short-term investment securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	**–**	**–**	**5,319**	**–**
Debt securities:				
Government and municipal bonds	**4,063**	**5,574**	**–**	**–**
Corporate bonds	**171,276**	**15,957**	**–**	**–**
Other debt securities	**7,446**	**5,851**	**1,063**	**–**
Other	**–**	**329**	**–**	**–**
Long-term loans receivable (*)	**–**	**233,148**	**89,500**	**–**
Total	**$ 1,434,117**	**$ 260,872**	**$ 95,882**	**$ –**

(*) The amount does not include receivables deemed to be uncollectible of ¥1 million ($10 thousand) and ¥4 million as of March 31, 2013 and 2012, respectively.

(4) Scheduled maturities of long-term loans payable

				Millions of yen
March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Long-term loans payable	**¥ –**	**¥ 16,673**	**¥ 7,524**	**¥ –**
Total	**¥ –**	**¥ 16,673**	**¥ 7,524**	**¥ –**

				Thousands of U.S. dollars
March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Long-term loans payable	**$ –**	**$ 177,372**	**$ 80,042**	**$ –**
Total	**$ –**	**$ 177,372**	**$ 80,042**	**$ –**

11. Derivative Transactions

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

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

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

				Millions of yen				Thousands of U.S. dollars
March 31, 2013	Contract amount and others	Due after one year	Fair value (*)	Unrealized gain (loss)	Contract amount and others	Due after one year	Fair value (*)	Unrealized gain (loss)
Currency and interest rate related:								
Foreign currency and interest rate swaps								
Receive Japanese yen fixed/Pay U.S. dollar floating	**¥ 1,600**	**¥ 1,200**	**¥ 332**	**¥ 332**	**$ 17,021**	**$ 12,765**	**$ 3,531**	**$ 3,531**
Total	**¥ 1,600**	**¥ 1,200**	**¥ 332**	**¥ 332**	**$ 17,021**	**$ 12,765**	**$ 3,531**	**$ 3,531**

				Millions of yen
March 31, 2012	Contract amount and others	Due after one year	Fair value (*)	Unrealized gain (loss)
Currency and interest rate related:				
Foreign currency and interest rate swaps				
Receive Japanese yen fixed/Pay U.S. dollar floating	¥ 2,000	¥ 1,600	¥ 649	¥ 649
Total	¥ 2,000	¥ 1,600	¥ 649	¥ 649

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

(2) Derivative transactions for which hedge accounting is applied

March 31, 2013	Millions of yen Contract amount and others	 Due after one year	 Fair value (*1)	Thousands of U.S. dollars Contract amount and others	 Due after one year	 Fair value (*1)
Currency related:						
Deferral hedge accounting						
Foreign exchange forward contracts						
U.S. dollars (Buying)	**¥ 6**	**¥ –**	**¥ (0)**	**$ 63**	**$ –**	**$ (0)**
Allocation method						
Foreign exchange forward contracts						
U.S. dollars (Buying)	**9**	**–**	**(0)**	**95**	**–**	**(0)**
U.S. dollars (Buying)	**3,528**	**–**	**(*2)**	**37,531**	**–**	**(*2)**
Total	**¥ 3,543**	**¥ –**	**¥ (0)**	**$ 37,691**	**$ –**	**$ (0)**

March 31, 2012	Millions of yen Contract amount and others	 Due after one year	 Fair value (*1)
Currency related:			
Deferral hedge accounting			
Foreign exchange forward contracts			
U.S. dollars (Buying)	¥ 1,818	¥ –	¥ 9
Total	¥ 1,818	¥ –	¥ 9

(*1) Fair value is measured based on quotes and others provided by financial institutions and others.
(*2) Foreign exchange forward contracts to which allocation method is applied are accounted for with the hedged item, accounts payable-trade. Thus, the fair value of the foreign exchange forward contracts is included in the fair value of the accounts payable-trade.

March 31, 2012	Millions of yen Contract amount and others	 Due after one year	 Fair value
Interest rate related:			
Exceptional treatment			
Interest rate swaps			
Receive floating/Pay floating	¥ 7,000	¥ 2,500	(*)
Total	¥ 7,000	¥ 2,500	¥ –

(*) Interest rate swaps to which exceptional treatment is applied are accounted for with the hedged item, long-term loans payable. Thus, the fair value of the interest rate swaps is included in the fair value of the long-term loans payable.

March 31, 2013	Millions of yen Contract amount and others	 Due after one year	 Fair value (*)	Thousands of U.S. dollars Contract amount and others	 Due after one year	 Fair value (*)
Commodity related:						
Deferral hedge accounting						
Crude oil price swaps						
Receive fixed/ Pay floating	**¥ 1,687**	**¥ –**	**¥ 228**	**$ 17,946**	**$ –**	**$ 2,425**
Total	**¥ 1,687**	**¥ –**	**¥ 228**	**$ 17,946**	**$ –**	**$ 2,425**

March 31, 2013	Millions of yen Contract volume (Kiloliters)	 Due after one year (Kiloliters)	 Fair value (*)	Thousands of U.S. dollars Fair value (*)
Commodity related:				
Deferral hedge accounting				
Crude oil collars				
Buying puts/ Selling calls	**9,357**	**–**	**¥ 23**	**$ 244**
Total	**9,357**	**–**	**¥ 23**	**$ 244**

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

12. Asset Retirement Obligations

(1) Asset retirement obligations recognized in the consolidated balance sheet as of March 31, 2013

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

The Group estimates the periods in which the obligations are paid out to be approximately 2 to 55 years 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 0.176 to 2.335% for domestic obligations and mainly 7% for overseas (mainly Canada).

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

Changes in the balance of asset retirement obligations for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen **2013**	 2012	Thousands of U.S. dollars **2013**
Balance at the beginning of the period	**¥ 9,832**	¥ 10,231	**$ 104,595**
Increase due to acquisition of new assets	**173**	57	**1,840**
Accretion	**303**	272	**3,223**
Settlement	**(153)**	(617)	**(1,627)**
Foreign currency translation adjustment	**282**	(127)	**3,000**
Other changes, net	**568**	15	**6,042**
Balance at the end of the period	**¥ 11,007**	¥ 9,832	**$ 117,095**

(2) Asset retirement obligations other than those recognized in the consolidated balance sheet as of March 31, 2013

The Group has obligations to restore sites to their original condition in accordance with laws, land lease contracts and others regarding oil and natural gas production facilities. However, in the natural gas supply business, which is the Group's primary business operation, maintaining and ensuring the stable supply of natural gas is of high public interest; therefore, even after completion of production activities, the Group plans to continue to use some of the assets held for the purpose of producing and selling oil and gas on a permanent basis in order to fulfill the responsibilities as a supplier for users of natural gas by holistically integrating these assets. Thus, the Group does not recognize the relevant asset retirement obligations since it is impossible to determine the timing of decommissioning and estimate asset retirement obligations on a reasonable basis as of March 31, 2013 and 2012.

The following table summarizes the details of balance of asset retirement obligations for the year ended March 31, 2013.

				Millions of yen
March 31, 2013	Beginning of the year	Increase	Decrease	End of the year
Under provisions of Petroleum and Inflammable Natural Gas Resources Development Law	**¥ 4,725**	**¥ 188**	**¥ 92**	**¥ 4,822**
Under provisions of Environmental Protection and Enhancement Act, etc. enforced in the Province of Alberta, Canada	**1,935**	**1,040**	**1**	**2,974**
Under provisions of Act on Prevention of Marine Pollution and Maritime Disaster	**1,885**	**42**	**–**	**1,927**
Under provisions of land lease contracts and other	**1,285**	**57**	**59**	**1,283**
Total	**¥ 9,832**	**¥ 1,328**	**¥ 153**	**¥ 11,007**

				Thousands of U.S. dollars
March 31, 2013	Beginning of the year	Increase	Decrease	End of the year
Under provisions of Petroleum and Inflammable Natural Gas Resources Development Law	**$ 50,265**	**$ 2,000**	**$ 978**	**$ 51,297**
Under provisions of Environmental Protection and Enhancement Act, etc. enforced in the Province of Alberta, Canada	**20,585**	**11,063**	**10**	**31,638**
Under provisions of Act on Prevention of Marine Pollution and Maritime Disaster	**20,053**	**446**	**–**	**20,500**
Under provisions of land lease contracts and other	**13,670**	**606**	**627**	**13,648**
Total	**$ 104,595**	**$ 14,127**	**$ 1,627**	**$ 117,095**

13. Contingent Liabilities

At March 31, 2013 and 2012, the Group had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
As guarantor of indebtedness of others:			
Kangean Energy Indonesia Ltd. (An obligation relating to production facilities)	**¥ 15,871**	¥ 15,369	**$ 168,840**
INPEX North Caspian Sea, Ltd.	**9,368**	7,224	**99,659**
Sakhalin Oil and Gas Development Co., Ltd.	**8,706**	9,725	**92,617**
Employees (Housing loans)	**570**	693	**6,063**
TOHOKU NATURAL GAS Co., Inc.	**517**	633	**5,500**
Kumamoto Mirai LNG Co., Ltd.	**88**	38	**936**
Total	**¥ 35,123**	¥ 33,684	**$ 373,648**

14. Information Related to Consolidated Statement of Changes in Net Assets

(1) Dividends paid to shareholders

2013

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 26, 2012	Annual General Meeting of Shareholders	Common stock	**¥ 1,143**	**$ 12,159**	**¥ 20**	**$ 0.21**	March 31, 2012	June 27, 2012
November 2, 2012	Board of Directors	Common stock	**¥ 1,143**	**$ 12,159**	**¥ 20**	**$ 0.21**	September 30, 2012	December 4, 2012

2012

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, 2011	Annual General Meeting of Shareholders	Common stock	¥ 1,143	¥ 20	March 31, 2011	June 27, 2011
November 4, 2011	Board of Directors	Common stock	¥ 1,143	¥ 20	September 30, 2011	November 29, 2011

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

2013

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 25, 2013	Annual General Meeting of Shareholders	Common stock	**¥ 1,143**	**$ 12,159**	Retained earnings	**¥ 20**	**$ 0.21**	March 31, 2013	June 26, 2013

2012

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 26, 2012	Annual General Meeting of Shareholders	Common stock	¥ 1,143	Retained earnings	¥ 20	March 31, 2012	June 27, 2012

15. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Selling, general and administrative expenses:			
Personal expenses	**¥ 9,983**	¥ 9,567	**$106,202**
Significant components of personal expenses:			
Retirement benefits expenses	**689**	651	**7,329**
Provision for directors' bonuses	**24**	94	**255**
Provision for directors' retirement benefits	**179**	179	**1,904**
Freightage expenses	**4,246**	4,464	**45,170**
Depreciation	**4,412**	7,874	**46,936**

Research and development expenses included in general and administrative expenses for the years ended March 31, 2013 and 2012 were ¥262 million ($2,787 thousand) and ¥626 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.

The asset group for which the Group recognized an impairment loss for the year ended March 31, 2013 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	**2013**
Business-use assets related to Yufutsu oil and gas field:		
Tomakomai, Hokkaido		
Buildings and structures	**¥ 6,556**	**$ 69,744**
Wells	**4,397**	**46,776**
Machinery, equipment and vehicles	**22,506**	**239,425**
Land	**2,914**	**31,000**
Other	**657**	**6,989**
Total	**¥ 37,031**	**$ 393,946**

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

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

For the year ended March 31, 2012, the Group recognized no impairment loss.

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 year ended March 31, 2013 are as follows.

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

Transactions:	Millions of yen	Thousands of U.S. dollars
	2013	**2013**
Guarantee of obligation (*1)	**¥ 8,706**	**$ 92,617**

Principal transactions between the Company and Kangean Energy Indonesia Ltd., the associate accounted for using the equity method, for the years ended March 31, 2013 and 2012 are as follows:

Transactions:	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Offering loans (*2)	**¥ 2,414**	¥ 4,778	**$ 25,680**
Collection of loans	**¥ 1,193**	¥ –	**$ 12,691**
Guarantee of obligation (*3)	**¥ 15,871**	¥ 15,369	**$ 168,840**

Balances:	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Short-term loans receivable	**¥ 2,629**	¥ 2,246	**$ 27,968**
Long-term loans receivable	**¥ 17,494**	¥ 13,439	**$ 186,106**

Principal transactions between the Company and EMP Exploration (Kangean) Ltd., the associate accounted for using the equity method, for the years ended March 31, 2013 and 2012 are as follows:

Transactions:	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Offering loans (*2)	**¥ 1,609**	¥ 3,185	**$ 17,117**
Collection of loans	**¥ 795**	¥ –	**$ 8,457**

Balances:	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Short-term loans receivable	**¥ 1,752**	¥ 1,497	**$ 18,638**
Long-term loans receivable	**¥ 11,663**	¥ 8,959	**$ 124,074**

(*1) The Company provides Sakhalin Oil and Gas Development Co., Ltd. with a guarantee of an obligation for its development project expenses and determines the reasonable guarantee fee rate considering the project plan. The amount of the transaction indicates the balance of the guaranty as of the year-end.

(*2) The Company determines the reasonable interest rates of loans receivable from Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd. based on the market interest rates.

(*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 affiliates

For the years ended March 31, 2013 and 2012, the summarized financial information of all associates accounted for using the equity method (13 companies in 2013 and 12 companies in 2012), including a significant affiliate, Diamond Gas Netherlands B.V., is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Total current assets	**¥ 165,420**	¥ 65,326	**$1,759,787**
Total noncurrent assets	**157,112**	92,717	**1,671,404**
Total current liabilities	**88,308**	35,324	**939,446**
Total noncurrent liabilities	**147,391**	63,558	**1,567,989**
Total net assets	**86,832**	59,160	**923,744**
Net sales	**69,513**	58,460	**739,500**
Income (loss) before income taxes	**11,003**	(3,217)	**117,053**
Net income	**9,059**	1,904	**96,372**

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

18. Amounts per Share

Net income per share is computed based on the net income available to common shareholders and the weighted average number of shares of common stock outstanding during the period, which is 57,152 thousand shares during the years ended March 31, 2013 and 2012.

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
	2013	2012	**2013**
Net income (loss) per share	**¥ (15.14)**	¥ 297.92	**$ (0.16)**
Net assets per share	**6,691.58**	6,869.27	**71.18**

Diluted net income per share is not disclosed due to the absence of dilutive shares for the years ended March 31, 2013 and 2012.

19. Cash Flow Information

Reconciliations between cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2013 and 2012 and cash and deposits in the consolidated balance sheets as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash and deposits	**¥ 53,870**	¥ 29,805	**$ 573,085**
Time deposits with maturities in excess of three months	**(18,454)**	(14,183)	**(196,319)**
Short-term investments with maturities of three months or less and others:			
Commercial papers	**13,998**	15,998	**148,914**
Repo with forward resale commitment	**26,998**	34,993	**287,212**
Money management fund and other	**36,226**	33,188	**385,382**
Cash and cash equivalents	**¥ 112,639**	¥ 99,803	**$1,198,287**

20. Other Comprehensive Income

Reclassification adjustments and income tax benefit (expense) on components of other comprehensive income for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	**¥ (15,734)**	¥ (20,449)	**$ (167,382)**
Reclassification adjustments	**(263)**	1	**(2,797)**
Pre-tax amount	**(15,997)**	(20,448)	**(170,180)**
Income tax benefit (expense)	**4,953**	14,257	**52,691**
Valuat on difference on available-for-sale securities	**(11,043)**	(6,191)	**(117,478)**
Deferred gains or losses on hedges:			
Gains (losses) arising during the year	**686**	(17)	**7,297**
Reclassification adjustments	**(386)**	–	**(4,106)**
Pre-tax amount	**300**	(17)	**3,191**
Income tax benefit (expense)	**(79)**	6	**(840)**
Deferred gains or losses on hedges	**221**	(10)	**2,351**
Foreign currency translation adjustment:			
Gains (losses) arising during the year	**3,384**	(1,413)	**36,000**
Reclassification adjustments	**5**	(1)	**53**
Foreign currency translation adjustment	**3,389**	(1,414)	**36,053**
Share of other comprehensive ncome of associates accounted for using equity method:			
Gains (losses) arising during the year	**(12)**	(154)	**(127)**
Share of other comprehensive income of associates accounted for using equity method	**(12)**	(154)	**(127)**
Total other comprehensive income	**¥ (7,444)**	¥ (7,770)	**$ (79,191)**

21. Segment Information

For the years ended March 31, 2013 and 2012

(1) Overview of reporting segments

Reporting segments a e defined as components of the Group fo which separate financial info mation 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 operat ons through project companies established at each operational site.

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

“Japan” is engaged in exploration, development, production purchasing sales and transpo tation 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 ext acted f om oil sands) in North America.

“Middle East” is engaged n development of c ude oil and natural gas in the Middle East

From the year ended March 31 2013 “Middle East” is recogn zed as a sepa ate eportin segment from “Othe ” due to its increased sign ficance Segment information for the year ended March 31, 2012 is disclosed based on the composition of reporting segments for the year ended March 31, 2013.

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

The ac ount ng polic   s of each   epo ting segmen are bas cally consist nt with th se disclosed n Note 2. Significant Ac ounting Pol c es Segment prof t is measu ed on a basis of ope at ng n o   . Intersegment sales and transfers are ac o n ed fo b sed on actual market prices.

(Ch nge in depreciation method for p operty plant and equipment)

Effective the yea   ended March 31, 2013, due to the revisi n of the Corporation Tax Act, the Company and its domesti   consol d ted subsidi ries   hanged the   dep e iation   etho   to the me hod prescribed   n the revised Corporation Tax Act for p operty plant and equ pment acqu ed on or a er April 1, 2012.

This change has littl   effect on segme t p of t of the "Japa " s gment for the year ended March 31, 2013.

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

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

March 31, 2012	Reporting segment				Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3) Millions of yen
	Japan	North America	Middle East	Total				
Net sales:								
Sales to third parties	¥ 221,340	¥ 9,297	¥ –	¥ 230,638	¥ –	¥ 230,638	¥ –	¥ 230,638
Intersegment sales and transfers	11	–	–	11	–	11	(11)	–
Total sales	221,351	9,297	–	230,649	–	230,649	(11)	230,638
Segment profit (loss)	23,978	1,244	(118)	25,104	(378)	24,726	(9,680)	15,045
Segment assets	123,492	6,531	12,811	142,835	2,755	145,590	387,299	532,890
Other items:								
Depreciation and amortization	22,839	662	–	23,502	–	23,502	400	23,902
Equity in earnings (losses) of affiliates	825	–	(6)	819	(1,142)	(323)	(85)	(408)
Investments in associates accounted for using the equity method	771	–	1,947	2,718	25,001	27,720	0	27,720
Increase in property, plant and equipment and intangible assets	15,849	1,403	–	17,252	–	17,252	147	17,400

	Thousands of U.S. dollars							
	Reporting segment				Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
March 31, 2013	Japan	North America	Middle East	Total				
Net sales:								
Sales to third parties	**$2,352,010**	**$ 106,340**	**$ –**	**$2,458,361**	**$ –**	**$ 2,458,361**	**$ –**	**$ 2,458,361**
Intersegment sales and transfers	**159**	**–**	**–**	**159**	**–**	**159**	**(159)**	**–**
Total sales	**2,352,180**	**106,340**	**–**	**2,458,521**	**–**	**2,458,521**	**(159)**	**2,458,361**
Segment profit (loss)	**276,755**	**(2,031)**	**(1,106)**	**273,606**	**(13,914)**	**259,680**	**(111,744)**	**147,936**
Segment assets	**821,000**	**148,521**	**260,872**	**1,230,404**	**33,031**	**1,263,436**	**4,323,500**	**5,586,936**
Other items:								
Depreciation and amortization	**159,329**	**9,531**	**–**	**168,861**	**–**	**168,861**	**4,478**	**173,340**
Amortization of goodwill	**–**	**–**	**63**	**63**	**–**	**63**	**–**	**63**
Equity in earnings (losses) of affiliates	**9,819**	**–**	**(21)**	**9,797**	**(1,297)**	**8,489**	**(478)**	**8,010**
Investments in associates accounted for using the equity method	**8,202**	**–**	**20,712**	**28,914**	**338,500**	**367,425**	**0**	**367,425**
Increase in property, plant and equipment and intangible assets	**66,180**	**72,021**	**–**	**138,202**	**–**	**138,202**	**3,223**	**141,425**

Note 1 “Other” which does not belo t repor ing segmen in I des the S uth Eas As a and others.

Note 2 “Adjustments and elim nations” includes the following:

(a) Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
nte segment elimination	**¥ 0**	¥ 4	**$ 0**
C p ate expense (*)	**(10,504)**	(9,684)	**(111,744)**
Total	**¥ (10,504)**	¥ (9,680)	**$ (111,744)**

(*) “Co po ate e pense” presents mainly gene al and admin tr tive expen es and expe ment and rese rch expense that re not allocated t repor ing segments.

(b) Segment assets

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
nte segment elimination	**¥ (25)**	¥ (25)	**$ (265)**
C porate assets (*1)	**4,002**	4,052	**42,574**
Other assets (*2)	**402,431**	383,272	**4,281,180**
Total	**¥ 406,409**	¥ 38 ,299	**$ 4,323,500**

(*) “C porate assets” presents m nly the assets admin strated by the head off e that re not allo ated to reporting segments.

(*2) As ets allocated to ep rt ng segments con s of p ope ty, plant nd equipme t, intangible assets and recoverable ac o nts ncl ded in investme ts d other ssets “Othe ssets” cons s s of p ope y, plant and equ pme t, i tangible assets and other assets other than re overable ac ou ts, which are o allocated to rep ing segments.

Note 3: Segment prof t (lo s) is eco ci ed to ope ating n m in the consolid ted statements of income.

(4) Related information

(a) Information by product and service

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Sales to third parties			
Crude oil	**¥ 78,834**	¥ 80,754	**$ 838,659**
Natural gas	**69,795**	74,957	**742,500**
LNG	**19,098**	15,930	**203,170**
Bitumen	**9,694**	9,137	**103,127**
Contract services	**9,674**	8,360	**102,914**
Oil products/merchandise	**36,034**	36,585	**383,340**
Others	**7,953**	4,912	**84,606**
Total	**¥ 231,086**	¥ 230,638	**$ 2,458,361**

(b) Information by geographical area

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Net sales:			
Japan	**¥ 173,808**	¥ 174,111	**$ 1,849,021**
Canada	**9,694**	9,137	**103,127**
Russia	**46,190**	46,221	**491,382**
Others	**1,392**	1,167	**14,808**
Total	**¥ 231,086**	¥ 230,638	**$ 2,458,361**

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
	2013	**2013**
Property, plant and equipment:		
Japan	**¥ 80,175**	**$ 852,925**
Canada	**9,918**	**105,510**
Others	**589**	**6,265**
Total	**¥ 90,683**	**$ 964,712**

Information about property, plant and equipment for the year ended March 31, 2012 is omitted since the balance of property, plant and equipment in Japan was over 90% of property, plant and equipment in the consolidated balance sheet as of March 31, 2012.

(c) Information by major customer

Information by major customer is omitted since there were no sales to single external customer accounting for 10% or more of net sales in the consolidated statements of income for the years ended March 31, 2013 and 2012.

(4) Information about impairment loss on noncurrent assets by reporting segment

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

	Thousands of U.S. dollars					
	Reporting segment			Other	Corporate/ eliminations	Total
March 31, 2013	Japan	North America	Middle East			
Impairment loss	**$394,617**	**$ –**	**$ –**	**$ –**	**$ –**	**$394,617**

For the year ended March 31, 2012, there was no related information to be reported.

ERNST & YOUNG

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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, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Petroleum Exploration Co., Ltd. and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 25, 2013

Principal Consolidated Subsidiaries and Equity-Method Affiliates

(As of March 31, 2013)

Consolidated Subsidiaries	Principal Business Activities	Paid-In Capital or Subscription Amount (Millions of yen)	Percentage of Voting Rights Held (%)
Akita Natural Gas Pipeline Co., Ltd.	Pipeline transport of natural gas in Akita Prefecture	250	100.00
SK Engineering Co., Ltd.	Contract engineering and well drilling	300	100.00
JAPEX SKS Corporation	Manufacture and sales of petroleum products, real estate management and insurance agent services	90	100.00
North Japan Oil Co., Ltd.	Refining, processing and sales of crude oil, recycling of waste oil, and contract handling and transportation of LNG and crude oil	80	100.00
Shirone Gas Co., Ltd. *1	Manufacturing, supply and sales of gas in Niigata City and Tsubame City	3,000	100.00
Japex Pipeline Ltd.	Pipeline management and maintenance	80	100.00
JGI, Inc. *1	Contract geophysical surveys and development of geophysical exploration technologies	2,100	100.00
Geophysical Surveying Co., Ltd.	Geophysical surveys and contract mud logging operations	446	100.00
Japex (U.S.) Corp. *1	Exploration, development and production of petroleum in the United States, and investment in an LNG project in Malaysia	33,000 (Thousands of U.S. dollars)	100.00
Japan Canada Oil Sands Limited *1, *3	Exploration, development and production of oil sands in Canada under a block lease agreement	295,370 (Thousands of Canadian dollars)	100.00 (100.00)
Canada Oil Sands Co., Ltd. *1, *3	Invests in oil sands exploration and development through Japan Canada Oil Sands Limited	1,682	87.98 (1.34)
JAPEX Montney Ltd. *1	Exploration, development and production of shale gas in Canada	36,000 (Thousands of Canadian dollars)	100.00
North Japan Security Service Co., Ltd.	Disaster protection for industrial facilities and security services	30	89.42
Japex Offshore Ltd. *1	Exploration, development and production of offshore petroleum from the continental shelf in the Sea of Japan	5,963	70.61
GEOSYS, Inc. *3	Contract geophysical exploration operations and sales of geophysical exploration devices and equipment	49	57.82 (57.82)
Japex Block A Ltd.	Exploration, development and production of petroleum on the island of Sumatra in Indonesia	2,040	100.00
Japex Energy Co., Ltd. *6	Purchasing and sales of LNG and petroleum products	90	90.00
Japex Garraf Ltd. *1	Exploration, development and production of petroleum in the Garraf oil field in Iraq	15,464	61.11

Equity-Method Affiliates	Principal Business Activities	Paid-In Capital or Subscription Amount (Millions of yen)	Percentage of Voting Rights Held (%)
TOHOKU NATURAL GAS Co., Inc.	Purchasing and sales of natural gas in the Tohoku region of Japan	300	45.00
TELNITE CO., LTD.	Manufacture and sales of drilling mud for well drilling and the provision of mud services	98	47.00
Universe Gas & Oil Company, Inc.	Exploration, development and production of petroleum in the eastern region of Kalimantan in Indonesia	9,443	33.43 (40.10)
Sakhalin Oil and Gas Development Co., Ltd.	Exploration, development and production of petroleum in and offshore Sakhalin in the Russia Federation	22,592	15.29
Japan Drilling Co., Ltd.*5	Contract offshore well drilling for petroleum	7,572	30.98
Energi Mega Pratama Inc.	Exploration, development and production of petroleum in the east coast of Java in Indonesia	52,000 (Thousands of U.S. dollars)	25.00
Kangean Energy Indonesia Ltd. *2, *4	Exploration, development and production of petroleum in the east coast of Java in Indonesia	10 (Thousands of U.S. dollars)	— [100.00]
EMP Exploration (Kangean) Ltd. *2, *4	Exploration, development and production of petroleum in the east coast of Java in Indonesia	100 (British pounds)	— [100.00]
Diamond Gas Netherlands B.V. *3	Invests in a project operated by Malaysian LNG producer Malaysia LNG Tiga	12,316 (Thousands of euros)	20.00 (20.00)
Japan CBM Limited	Exploration, development and production of coal bed methane in the eastern region of Kalimantan in Indonesia	515	40.12

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

Corporate Data

(As of March 31, 2013)

Company Name Japan Petroleum Exploration Co., Ltd. (Abbreviation: JAPEX)

Service Logo JAPEX

Established April 1, 1970

Paid-In Capital 14,288,694,000 yen

Fiscal Year April 1 to March 31 of the following year

Number of Employees 1,747 (Consolidated)

Principal Businesses Exploration, development and sales of oil, natural gas, and other energy resources and contract service-related operations such as drilling

Main Offices Headquarters (see below), Hokkaido, Akita, Nagaoka, Research Center (Chiba), London, Dubai, Houston, Beijing, Jakarta

Headquarters SAPIA Tower, 1-7-12 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan
TEL: +81-3-6268-7000
FAX: +81-3-6268-7300
URL: http://www.japex.co.jp/english/index.html

Directors, Corporate Auditors and Executive Officers (As of June 25, 2013)

Chairman
Yuji Tanahashi

President & Chief Executive Officer
Osamu Watanabe

Executive Vice President & Executive Officer
Hiroshi Sato

Senior Managing Directors & Executive Officers
Shoichi Ishii
Mitsuru Saito
Junichi Matsumoto
Nobuyuki Ogura

Managing Directors & Executive Officers
Hitoshi Yamatoya
Kazuo Nakayama
Kiyoshi Ogino
Hikaru Fukasawa
Yosuke Higai
Shigeru Mitsuya

Outside Director
Kazuo Kawakami

Corporate Auditors
Nobuaki Moritani
Morio Ishizeki

Outside Corporate Auditors
Masahiko Kadotani
Kisaburo Ikeda

Managing Executive Officers
Yasuhiro Masui
Kazuhiko Ozeki
Taku Kawanaka
Motofumi Hyodo

Executive Officers
Toru Kuroda
Takahisa Inoue
Hajime Ito
Hirotaka Tanaka
Toshiyuki Hirata
Yoya Murahashi
Yasushi Hamada
Michiro Yamashita

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

Stock Information (As of March 31, 2013)

Exchange Listing First Section of the Tokyo Stock Exchange (Securities Code Number: 1662)

Common Stock Authorized: 120,000,000 shares
Issued: 57,154,776 shares

Number of Shareholders 19,933

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

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

Major Shareholders

Shareholders	Shares	Voting Rights (%)
The Minister of Economy, Trade and Industry	19,432,724	34.00
INPEX CORPORATION	2,852,212	4.99
The Master Trust Bank of Japan, Ltd. (Trust)	2,646,500	4.63
Japan Trustee Services Bank, Ltd. (Trust)	1,919,300	3.36
JFE Engineering Corporation	1,848,012	3.23
JX Holdings, Inc.	1,149,984	2.01
The Chase Manhattan Bank N.A. London S.L. Omnibus Account	731,277	1.28
Mizuho Corporate Bank, Ltd.	720,152	1.26
Nippon Steel & Sumitomo Metal Corporation	610,316	1.07
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	600,000	1.05

Inquiries:
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On the cover:
The Katakai gas field located in Ojiya City in Niigata Prefecture.
The photograph was taken in September 2012 when there was a successful production test for natural gas.

2013.10 Printed in Japan