JAPEX

Japan Petroleum Exploration Co., Ltd.

Corporate Report 2019

Financial Data Book

For the year ended March 31, 2019

(From April 1, 2018 to March 31, 2019)

Contents

Management's Discussion and Analysis

Overview of Operating Results

In the fiscal year ended March 31, 2019 (FY2019/3), net sales were ¥267,980 million, an increase of ¥37,350 million (+16.2%) year on year, and gross profit was ¥34,846 million, a decrease of ¥4,416 million (–11.2%), compared with the previous fiscal year. The year-on-year increase in net sales was mainly due to rises in sales price of crude oil and natural gas, as well as contribution from sales of bitumen in Japan Canada Oil Sands Limited (JACOS) Hangingstone leases where production operation was started in August 2017. On the other hand, gross profit decreased year on year due to a decline in profit from diluted bitumen sales stemming from the widening heavy-light differential (between Western Canadian Select, which is the reference price for heavy crude oil from the oil sands, and the WTI, which is the reference price of light crude oil) in the oil sands business, the increase in operating costs in association with full-year operation of the Soma LNG terminal (commenced operation in March 2018), and other factors.

Exploration expenses were ¥788 million, a decrease of ¥535 million (–40.4%) year on year. Selling, general and administrative expenses were ¥31,743 million, an increase of ¥2,570 million (+8.8%) year on year. As a result, operating profit was ¥2,313 million, a decrease of ¥6,451 million (–73.6%) year on year.

Ordinary profit was ¥12,523 million, an increase of ¥8,695 million (+227.1%) year on year, due mainly to the following positive factors. Share of loss of entities accounted for using equity method turned around to share of profit of entities accounted for using equity method. In FY2018/3, at Japan Canada Oil Sands Limited (JACOS), a decision was made to not restart operation of bitumen production using the SAGD process in the 3.75 Section Area (hereinafter "the DEMO Area") at the Hangingstone leases. The property, plant and equipment relating to the DEMO Area was subsequently depreciated by the unit-of-production method, which was posted to depreciation of inactive non-current assets. This depreciation of inactive non-current assets decreased in FY2019/3. These and other positive factors offset negative factors stemming from the reversal of foreign exchange gains to foreign exchange losses of ¥5,296 million.

Profit before income taxes totaled ¥13,074 million, an increase of ¥82,477 million from a loss before income taxes in the previous fiscal year. Following the decision not to proceed with the Pacific NorthWest LNG Project (hereinafter "the PNW LNG Project"), the development plan of the shale gas project (hereinafter "the Upstream Project") was revised without the assumption of the PNW LNG Project. As a result, an impairment loss on the asset of JAPEX Montney Ltd. (JML) relating to the Upstream Project was posted in the previous fiscal year. However, this impairment loss declined in FY2019/3, and profit attributable to owners of the parent totaled ¥14,770 million, up ¥45,729 million from a loss attributable to owners of the parent in the previous fiscal year.

Overview of Financial Position

Total assets at the end of FY2019/3 decreased by ¥44,248 million from the previous fiscal year-end to ¥655,288 million.

Current assets decreased by ¥3,063 million from the previous fiscal year-end, mainly due to a decrease in notes and accounts receivable—trade.

Non-current assets decreased by ¥41,184 million from the previous fiscal year-end. This was mainly due to the decrease in market values of securities held in investment securities and the decline in property, plant and equipment resulting from the impact of fluctuation in foreign exchange rates and depreciation.

Total liabilities decreased by ¥35,150 million from the previous fiscal year-end to ¥205,131 million.

Current liabilities decreased by ¥11,236 million from the previous fiscal year-end, mainly due to decreases in notes and accounts payable—trade and short-term loans payable included in other in current liabilities. Non-current liabilities decreased by ¥23,913 million from the previous fiscal year-end. This was mainly due to a decrease in deferred tax liabilities resulting from the above-mentioned mark-to-market valuation of securities held and the reclassification of loans payable with repayments due in one year or less to current liabilities in long-term loans payable.

Total net assets decreased by ¥9,098 million year on year, to ¥450,156 million.

The main factors was an increase in retained earnings, despite an decrease in valuation difference on available-for-sale securities.

Please note that the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) and relevant Guidances have been applied from April 1, 2018. Accordingly, the figures presented for the financial position for the fiscal year ended March 31, 2018 have been retrospectively adjusted to reflect the application of the standard, etc. in order to facilitate comparison and analysis against the previous fiscal year.

Cash Flows

As of March 31, 2019, cash and cash equivalents (hereinafter "net cash") increased by ¥740 million compared with the end of the previous fiscal year, to ¥100,633 million. Below is a summary of cash flows for each activity.

<u>Cash flows from operating activities</u>

Net cash provided by operating activities amounted to ¥30,970 million. The main factors were profit before income taxes of ¥13,074 million and ¥23,296 million in depreciation.

<u>Cash flows from investing activities</u>

Net cash used in investing activities amounted to ¥13,969 million. Net cash was mainly used in payments of recoverable accounts of ¥25,107 million and purchase of property, plant and equipment of ¥12,955 million, while net cash was mainly provided by interest and dividend income received of ¥16,126 million and collection of loans receivable of ¥6,912 million.

<u>Cash flows from financing activities</u>

Net cash used in financing activities was ¥15,493 million. Net cash was mainly used for a decrease in short-term loans payable of ¥7,877 million, repayments of long-term loans payable of ¥4,990 million and interest expenses paid of ¥3,865 million.

Exchange Rates and Crude Oil Prices

The average unit sales price of crude oil received by JAPEX during FY2019/3 was ¥50,078 per kiloliter, an increase of ¥12,071 per kiloliter compared with the previous fiscal year.

The sales price of domestic crude oil is essentially linked to yen translations of the price of imported crude oil.

The weighted average price of crude oil based on the Japan Crude Cocktail (JCC) price was $71.94 per barrel, an increase of $15.75 from the level per barrel of the previous fiscal year. Compared with the previous fiscal year, the yen appreciated ¥1.31 versus the US dollar, for a weighted average exchange rate of ¥110.35.

The Group's average crude oil sales price increased compared with FY2018/3 as a result of the increases in dollar-denominated crude oil prices, shown above, which more than offset the decreases in crude oil prices due to yen appreciation.

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

The weighted average unit sales price of diluted bitumen was $36.67 per barrel, a year-on-year decrease of $2.96.

Capital Expenditures and Depreciation

Capital expenditures decreased ¥30,898 million year on year to ¥10,903 million. Major components of these expenditures included investments related to the Soma LNG Terminal and the drilling of production wells in Niigata Prefecture. Depreciation and amortization decreased ¥73 million year on year to ¥23,296 million.

Payments of recoverable accounts rose ¥10,092 million year on year to ¥25,107 million, mainly for development of the Garraf Oil Field in Iraq, and recovery of recoverable accounts totaled ¥11,118 million, a decrease of ¥16,263 million from the previous fiscal year.

Exploration Activities

Exploration expenses declined ¥788 million year on year, to ¥535 million.

The decrease in exploration expenses is mainly attributable to geothermal surveys and drilling operations for our geothermal business in Hokkaido Prefecture, Japan.

Net Sales

In FY2019/3, net sales in the E&P business amounted to ¥215,429 million, accounting for 80.4% of the total. Net sales of Contract Services were ¥7,342 million, or 2.7% of the total. Net sales of the Other Businesses were ¥45,207 million, or 16.9% of the total.

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

Crude oil sales volume decreased 457 thousand kiloliters, or 19.5%, compared with FY2018/3 to 1,888 thousand kiloliters, mainly due to a decrease in oil sales volume for the Garraf Oil Field in Iraq. Nevertheless, crude oil sales increased ¥5,406 million, or 6.1%, year on year to ¥94,579 million owing to rising crude oil sales prices.

Natural gas sales volume decreased 41 million cubic meters, or 2.4%, year on year to 1,731 million cubic meters. However, sales of natural gas increased ¥7,388 million, or 12.2%, year on year to ¥67,820 million, as the unit sales price of natural gas increased ¥5.09 per cubic meter year on year to ¥39.17 per cubic meter.

The decline in sales volume was mainly attributable to a temporary drop in demand from a particular segment of consumers in Japan.

LNG sales volume decreased 58 thousand tons, or 15.4%, year on year to 322 thousand tons, and LNG sales rose ¥978 million, or 4.5%, to ¥22,913 million.

As a result of having started full-scale production in the JACOS Hangingstone lease area from August 2017, diluted bitumen sales volume was 1,176 thousand kiloliters, an increase of 1,015 thousand kiloliters, or 634.1%, year on year, and diluted bitumen sales increased ¥25,603 million, or 567.4%, year on year to ¥30,116 million.

Operating Expenses

The cost of sales increased ¥41,766 million compared with the previous fiscal year, to ¥233,133 million. This was mainly the result of an increase in operating costs following the start of full-scale bitumen production operations, an increase in operating costs following the full-year operation of the Soma LNG Terminal (began from March 2018), and an increase in the sales price and in the sales volume of imported crude oil.

Selling, general, and administrative (SG&A) expenses increased ¥2,570 million from the previous fiscal year, to ¥31,743 million.

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

As a result, operating income declined ¥2,313 million compared with FY2018/3, to ¥6,451 million.

Non-operating Income (Loss)

Total non-operating income increased ¥11,997 million year on year, to ¥20,804 million, mainly owing to the reversal of the previous fiscal year's share of loss of entities accounted for using equity method, which was turned around to share of profit of entities accounted for using equity method, as well as the recording of gain on reversal of asset retirement obligations following the transfer of interests in JACOS's DEMO Area. This was despite foreign exchange gains in the previous fiscal year turning to foreign exchange losses.

Non-operating expenses were ¥10,594 million, decreasing ¥3,148 million compared with the previous fiscal year mainly as a result of the following factors. Share of loss of entities accounted for using equity method turned around to share of profit of entities accounted for using equity method. In FY2018/3, at JACOS, following the decision not to restart operation of bitumen production using the SAGD process in the DEMO Area, the property, plant and equipment relating to the DEMO Area was depreciated by the unit-of-production method and was posted to depreciation of inactive non-current assets. This depreciation of inactive non-current assets decreased in FY2019/3.

As a result, ordinary income increased ¥8,695 million compared with FY2018/3, to ¥12,523 million.

Extraordinary Gain (Loss)

JAPEX recorded extraordinary income of ¥716 million, down ¥4,286 million from FY2018/3, as a result of such factors as a decline in subsidy income.

Extraordinary losses decreased ¥78,068 million year on year to ¥165 million largely a result of the following factors. Following the decision not to proceed with the PNW LNG Project involving JML, the development plan of the Upstream Project was revised without the assumption of the PNW LNG Project. As a result, an impairment loss on the project asset of JML relating to the Upstream Project was posted in the previous fiscal year. However, this impairment loss declined in FY2019/3. Cancellation expenses with respect to pipeline construction plans relating to the PNW LNG Project were recorded as other in extraordinary losses in the previous fiscal year. These extraordinary losses declined in FY2019/3.

As a result of the above, JAPEX recorded profit before income taxes of ¥13,074 million, a ¥82,477 million increase from a loss before income taxes in the previous fiscal year.

Profit Attributable to Owners of Parent

Current and deferred income taxes amounted to negative ¥1,254 million, a ¥1,494 million decrease compared with the previous fiscal year. Meanwhile, loss attributable to non-controlling interests was ¥441 million, a ¥38,242 million improvement from the previous fiscal year.

As a result of the above, after deducting income taxes and non-controlling interests, JAPEX recorded profit attributable to owners of parent of ¥14,770 million, up ¥45,729 million from a loss attributable to owners of the parent in the previous fiscal year.

Financial Policy

The following section describes practices of the JAPEX Group with respect to its capital resources and liquidity.

The JAPEX Group's financing needs primarily consist of funds used as working capital with respect to its operating activities and funds for capital investment and overseas investment with respect to its investing activities.

Although working capital is primarily procured using internal funds, the JAPEX Group curtails its interest-bearing debt by arranging intercompany loans such as those using CMS (cash management systems) in an effort to improve funding efficiency. In addition, as of the end of FY2019/3, JAPEX had also entered into overdraft agreements and loan commitment agreements in a total amount of ¥151,652 million with six of its banking partners for the purpose of efficiently procuring working capital.

With funds used for capital investments and overseas investments, when the investment amount warrants long-term debt, financing is occasionally used in light of the quality of the project and the balance of liquidity in hand. The total of long-term loans payable (including loans payable within one year) as of the end of FY2019/3 was ¥134,115 million. The primary components were ¥4,439 million in loans as capital for development of the Kangean Block in Indonesia and ¥66,247 million and ¥60,178 million, respectively, in loans as capital for oil sands development and shale gas development in Canada.

In addition, as of the end of FY2019/3, the JAPEX Group maintained contingent liabilities totaling ¥11,638 million for guarantees of bank and other financing used for operating capital of overseas project companies and for employee home loans. Provisions for these obligations, however, ensure adequate liquidity through cash on hand and marketable securities.

Dividend Policy

JAPEX has the basic policy on profit distribution to maintain long-term and stable dividends for shareholders. As a company with the role of providing a stable supply of oil and natural gas essential for the function of society, the specific dividend amount is set after giving comprehensive consideration to investments aimed at securing new, proved reserves worldwide and retaining earnings to fund development and expansion of our supply infrastructure in light of the medium to long-term outlook for the business environment. In addition to the above, we need to consider the level of earnings for each fiscal year and any future funding needs.

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

As for the FY2019/3 dividends, we issued an interim dividend of ¥10 per share and, although we had previously announced a year-end dividend forecast of ¥10 per share, issued a year-end dividend of ¥30 per share in consideration of the basic policy detailed above and the consolidated performance for FY2019/3.

In short, we decided to issue an annual dividend for FY2019/3 of ¥40 per share (interim dividend of ¥10 per share and a year-end dividend of ¥30 per share).

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

Consolidated Balance Sheet

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2019	2018	2019
Current assets:			
Cash and deposits (Notes 11 and 20)	¥117,468	¥115,313	$1,067,890
Notes and accounts receivable - trade (Note 11)	20,825	26,073	189,318
Securities (Notes 4, 11 and 20)	2,330	2,200	21,181
Merchandise and finished goods (Note 3)	4,559	5,447	41,445
Work in process (Note 3)	362	381	3,290
Raw materials and supplies (Note 3)	7,589	5,524	68,990
Short-term loans receivable (Note 11)	4,575	6,449	41,590
Other	8,410	7,796	76,454
Less—allowance for doubtful accounts	(33)	(34)	(300)
Total current assets	166,087	169,151	1,509,881
Non-current assets:			
Property, plant and equipment (Notes 5 and 17):			
Land	16,732	16,783	152,109
Buildings and structures	335,648	328,212	3,051,345
Wells	116,070	116,387	1,055,181
Machinery, equipment and vehicles	146,276	116,313	1,329,781
Construction in progress	26,825	71,936	243,863
Other	37,316	30,906	339,236
Less—accumulated depreciation	(369,754)	(351,050)	(3,361,400)
Total property, plant and equipment	309,114	329,490	2,810,127
Intangible assets:			
Other	7,399	8,226	67,263
Total intangible assets	7,399	8,226	67,263
Investments and other assets:			
Investment securities (Notes 4 and 11)	137,794	167,342	1,252,672
Long-term loans receivable (Note 11)	42	4,547	381
Deferred tax assets (Note 7)	7,713	7,818	70,118
Defined benefit asset (Note 8)	1,319	1,451	11,990
Other (Note 4)	26,920	13,540	244,727
Less—allowance for doubtful accounts	(46)	(50)	(418)
Less—allowance for overseas investment loss	(1,057)	(1,982)	(9,609)
Total investments and other assets	172,686	192,667	1,569,872
Total non-current assets	489,200	530,384	4,447,272
Total assets	¥655,288	¥699,536	$5,957,163

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2019
Current liabilities:			
Notes and accounts payable—trade (Note 11)	**¥ 7,666**	¥ 13,544	**$ 69,690**
Provision for directors' bonuses	**25**	20	**227**
Other (Note 6)	**24,686**	30,050	**224,418**
Total current liabilities	**32,378**	43,615	**294,345**
Non-current liabilities:			
Long-term loans payable (Notes 6 and 11)	**127,715**	135,959	**1,161,045**
Deferred tax liabilities (Note 7)	**22,330**	34,833	**203,000**
Provision for directors' retirement benefits	**86**	83	**781**
Defined benefit liability (Note 8)	**3,452**	3,496	**31,381**
Asset retirement obligations (Note 13)	**15,335**	18,664	**139,409**
Other (Note 6)	**3,831**	3,628	**34,827**
Total non-current liabilities	**172,752**	196,665	**1,570,472**
Total liabilities	**205,131**	240,281	**1,864,827**
Commitment and contingent liabilities (Notes 10, 12 and 14)			
Net assets (Note 9)**:**			
Shareholders' equity:			
Capital stock:			
Authorized—120,000,000 shares			
Issued—57,154,776 shares as of March 31, 2019 and 2018	**14,288**	14,288	**129,890**
Capital surplus	**157**	183	**1,427**
Retained earnings	**331,306**	317,679	**3,011,872**
Treasury shares; 2,207 shares as of March 31, 2019 2,139 shares as of March 31, 2018	**(10)**	(10)	**(90)**
Total shareholders' equity	**345,741**	332,140	**3,143,100**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**66,296**	86,667	**602,690**
Deferred gains or losses on hedges	**(2)**	3	**(18)**
Foreign currency translation adjustment	**3,338**	5,149	**30,345**
Remeasurements of defined benefit plans	**1,114**	1,152	**10,127**
Total accumulated other comprehensive income	**70,747**	92,973	**643,154**
Non-controlling interests	**33,668**	34,140	**306,072**
Total net assets	**450,156**	459,255	**4,092,327**
Total liabilities and net assets	**¥655,288**	¥699,536	**$5,957,163**

See notes to consolidated financial statements.

Consolidated Statement of Income

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales	¥267,980	¥230,629	$2,436,181
Cost of sales (Note 3)	233,133	191,366	2,119,390
Gross profit	34,846	39,263	316,781
Exploration expenses	788	1,380	7,163
Exploration subsidies	—	(55)	—
	788	1,324	7,163
Selling, general and administrative expenses (Note 16)	31,743	29,173	288,572
Operating profit	2,313	8,764	21,027
Other income (expenses):			
Interest income	1,598	1,382	14,527
Dividend income	2,102	2,422	19,109
Gain (loss) on sales of securities, net	2	1,350	18
Share of profit (loss) of entities accounted for using equity method	12,550	(2,601)	114,090
Gain on reversal of asset retirement obligations	3,293	—	29,936
Depreciation of inactive non-current assets (Note 22)	—	(7,797)	—
Foreign exchange gains (losses)	(5,296)	2,710	(48,145)
Interest expenses	(4,130)	(2,178)	(37,545)
Gain (loss) on sales of non-current assets, net	656	(3)	5,963
Loss on retirement of non-current assets	(74)	(74)	(672)
Subsidy income (Note 5)	—	5,000	—
Impairment loss (Note 17)	(30)	(67,721)	(272)
Other, net	91	(10,656)	827
	10,760	(78,167)	97,818
Profit (loss) before income taxes	13,074	(69,403)	118,854
Income taxes (Note 7)**:**			
Income taxes—current	3,925	4,392	35,681
Income taxes—deferred	(5,179)	(4,152)	(47,081)
	(1,254)	240	(11,400)
Profit (loss)	14,328	(69,643)	130,254
Loss attributable to non-controlling interests	(441)	(38,683)	(4,009)
Profit (loss) attributable to owners of parent (Note 19)	¥ 14,770	¥ (30,959)	$ 134,272

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Profit (loss)	**¥14,328**	¥(69,643)	**$130,254**
Other comprehensive income (Note 21)**:**			
Valuation difference on available-for-sale securities	**(20,366)**	16,791	**(185,145)**
Deferred gains or losses on hedges	**(5)**	242	**(45)**
Foreign currency translation adjustment	**(1,705)**	32	**(15,500)**
Remeasurements of defined benefit plans	**(38)**	632	**(345)**
Share of other comprehensive income of entities accounted for using equity method	**(16)**	(826)	**(145)**
Changes in equity interest	**—**	2,040	**—**
Total other comprehensive income	**(22,132)**	18,912	**(201,200)**
Comprehensive income	**¥ (7,804)**	¥(50,730)	**$ (70,945)**
Comprehensive income attributable to:			
Owners of parent	**¥ (7,455)**	¥(13,308)	**$ (67,772)**
Non-controlling interests	**(348)**	(37,421)	**(3,163)**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of March 31, 2017	¥14,288	¥183	¥345,693	¥(10)	¥360,155
Cumulative effects on changes in accounting policies			2,048		2,048
Balance as of April 1, 2017	14,288	183	347,741	(10)	362,203
Dividends from surplus			(1,143)		(1,143)
Loss attributable to owners of parent			(30,958)		(30,958)
Changes in equity interest			2,040		2,040
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	(30,062)	—	(30,062)
Balance as of April 1, 2018	**14,288**	**183**	**317,679**	**(10)**	**332,140**
Dividends from surplus			**(1,143)**		**(1,143)**
Profit attributable to owners of parent			**14,770**		**14,770**
Change in ownership interest of parent due to transactions with non-controlling interests		**(26)**			**(26)**
Purchase of treasury shares				**(0)**	**(0)**
Net changes of items other than shareholders' equity					
Total changes of items during period	**—**	**(26)**	**13,627**	**(0)**	**13,600**
Balance as of March 31, 2019	**¥14,288**	**¥157**	**¥331,306**	**¥(10)**	**¥345,741**

	Millions of yen						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of March 31, 2017	¥69,832	¥(226)	¥7,301	¥ 455	¥77,363	¥73,091	¥510,609
Cumulative effects on changes in accounting policies							2,048
Balance as of April 1, 2017	69,832	(226)	7,301	455	77,363	73,091	512,658
Dividends from surplus							(1,143)
Loss attributable to owners of parent							(30,959)
Changes in equity interest							2,040
Net changes of items other than shareholders' equity	16,834	229	(2,151)	697	15,610	(38,950)	(23,340)
Total changes of items during period	16,834	229	(2,151)	697	15,610	(38,950)	(53,402)
Balance as of April 1, 2018	**86,667**	**3**	**5,149**	**1,152**	**92,973**	**34,140**	**459,255**
Dividends from surplus							**(1,143)**
Profit attributable to owners of parent							**14,770**
Change in ownership interest of parent due to transactions with non-controlling interests							**(26)**
Purchase of treasury shares							**(0)**
Net changes of items other than shareholders' equity	**(20,370)**	**(5)**	**(1,810)**	**(38)**	**(22,225)**	**(472)**	**(22,698)**
Total changes of items during period	**(20,370)**	**(5)**	**(1,810)**	**(38)**	**(22,225)**	**(472)**	**(9,098)**
Balance as of March 31, 2019	**¥66,296**	**¥ (2)**	**¥3,338**	**¥1,114**	**¥70,747**	**¥33,668**	**¥450,156**

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2018	$129,890	$1,663	$2,887,990	$(90)	$3,019,454
Dividends from surplus			(10,390)		(10,390)
Profit attributable to owners of parent			134,272		134,272
Change in ownership interest of parent due to transactions with non-controlling interests		(236)			(236)
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(236)	123,881	(0)	123,636
Balance as of March 31, 2019	$129,890	$1,427	$3,011,872	$(90)	$3,143,100

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2018	$787,881	$ 27	$46,809	$10,472	$845,209	$310,363	$4,175,045
Dividends from surplus							(10,390)
Profit attributable to owners of parent							134,272
Change in ownership interest of parent due to transactions with non-controlling interests							(236)
Purchase of treasury shares							(0)
Net changes of items other than shareholders' equity	(185,181)	(45)	(16,454)	(345)	(202,045)	(4,290)	(206,345)
Total changes of items during period	(185,181)	(45)	(16,454)	(345)	(202,045)	(4,290)	(82,709)
Balance as of March 31, 2019	$602,690	$(18)	$30,345	$10,127	$643,154	$306,072	$4,092,327

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash provided by (used in) operating activities:			
Profit (loss) before income taxes	¥ 13,074	¥ (69,403)	$118,854
Depreciation and amortization	23,296	23,370	211,781
Impairment loss	30	67,721	272
Loss on retirement of property, plant and equipment	74	46	672
Loss (gain) on valuation of short-term and long-term investment securities	4	284	36
Increase (decrease) in allowance for doubtful accounts	(4)	1	(36)
Decrease (increase) in defined benefit asset	132	(497)	1,200
Increase (decrease) in defined benefit liability	(43)	(76)	(390)
Increase (decrease) in provision for directors' retirement benefits	2	14	18
Increase (decrease) in allowance for overseas investment loss	(924)	(566)	(8,400)
Gain on reversal of asset retirement obligations	(3,293)	—	(29,936)
Interest and dividend income	(3,700)	(3,805)	(33,636)
Interest expenses	4,130	2,178	37,545
Foreign exchange losses (gains)	5,444	(3,003)	49,490
Loss (gain) on sales of short-term and long-term investment securities	(2)	(1,349)	(18)
Share of loss (profit) of entities accounted for using equity method	(12,550)	2,601	(114,090)
Recovery of recoverable accounts	11,118	27,381	101,072
Decrease (increase) in notes and accounts receivable—trade	5,217	2,209	47,427
Decrease (increase) in inventories	(1,188)	(1,571)	(10,800)
Increase (decrease) in notes and accounts payable—trade	(11,131)	844	(101,190)
Increase (decrease) in accrued consumption taxes	970	481	8,818
Other, net	8,443	2,742	76,754
Subtotal	39,101	49,602	355,463
Proceeds from subsidy income	—	5,000	—
Income taxes (paid) refund	(8,130)	(1,721)	(73,909)
Net cash provided by (used in) operating activities	30,970	52,881	281,545
Cash provided by (used in) investing activities:			
Payments into time deposits	(68,859)	(28,458)	(625,990)
Proceeds from withdrawal of time deposits	66,992	18,228	609,018
Purchase of securities	(30)	—	(272)
Proceeds from sales and redemption of securities	500	0	4,545
Purchase of property, plant and equipment	(12,955)	(42,534)	(117,772)
Proceeds from sales of property, plant and equipment	1,337	94	12,154
Purchase of intangible assets	(734)	(290)	(6,672)
Payments for asset retirement obligations	(221)	(712)	(2,009)
Purchase of investment securities	(52)	(70)	(472)
Proceeds from sales and redemption of investment securities	2	1,350	18
Payments for investments in capital	—	(198)	—
Payments of recoverable accounts	(25,107)	(15,091)	(228,245)
Payments of loans receivable	(26)	(20)	(236)
Collection of loans receivable	6,912	4,456	62,836
Interest and dividend income received	16,126	8,873	146,600
Proceeds from dividends of residual property	21	9	190
Proceeds from capital reduction of investments	1,636	208	14,872
Proceeds from transfer of mining rights	543	—	4,936
Other, net	(56)	(63)	(509)
Net cash provided by (used in) investing activities	(13,969)	(54,218)	(126,990)
Cash provided by (used in) financing activities:			
Proceeds from short-term loans payable	2,939	5,455	26,718
Repayments of short-term loans payable	(7,877)	—	(71,609)
Proceeds from long-term loans payable	—	3,221	—
Repayments of long-term loans payable	(4,990)	(4,760)	(45,363)
Purchase of treasury shares	(0)	—	(0)
Cash dividends paid	(1,143)	(1,144)	(10,390)
Dividends paid to non-controlling interests	(183)	(1,529)	(1,663)
Interest expenses paid	(3,865)	(1,862)	(35,136)
Repayments of lease obligations	(404)	(577)	(3,672)
Proceeds from share issuance to non-controlling shareholders	32	—	290
Net cash provided by (used in) financing activities	(15,493)	(1,196)	(140,845)
Effect of exchange rate change on cash and cash equivalents	(766)	(1,204)	(6,963)
Net increase (decrease) in cash and cash equivalents	740	(3,737)	6,727
Cash and cash equivalents at beginning of period	99,892	103,630	908,109
Cash and cash equivalents at end of period (Note 20)	¥100,633	¥ 99,892	$914,845

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

1. Basis of Presenting Consolidated Financial Statements

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

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.

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 ¥110 = U.S. $1, the approximate rate of exchange at March 31, 2019, and were then rounded down to the nearest thousand. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollar do not necessarily agree with the sums of the individual amounts. This translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience of readers outside Japan. Such translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at that or any other rate.

2. Significant Accounting Policies

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

The consolidated financial statements as of and for the year ended March 31, 2019 include the accounts of the Company and its 21 (23 in 2018) 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, 2019, 11 (12 in 2018) associates are accounted for using the equity method.

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

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

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

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

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

(2) Foreign currency translation

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

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

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

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

(3) Cash and cash equivalents

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

(4) Securities and investment securities

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

(5) Inventories

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

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

Buildings (excluding attached facilities) acquired on or after April 1, 1998 and facilities attached to buildings and structures of certain domestic consolidated subsidiaries acquired on or after April 1, 2016 as well as the Sendai pipelines, the Shiroishi-Koriyama gas pipelines, Soma-Iwanuma gas pipelines, assets of the Hokkaido District Office and Soma District Office of the Company and property, plant and equipment held by three domestic consolidated subsidiaries are depreciated by the straight-line method.

Property, plant and equipment held by three foreign consolidated subsidiaries (three in 2018) are depreciated by the unit of production method.

Other property, plant and equipment (excluding leased assets) are depreciated by the declining-balance method.

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

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

(7) Intangible assets (excluding leased assets)

Intangible assets are amortized by the straight-line method.

Capitalized computer software costs are amortized by the straight-line method over a period of five years, and those of one foreign consolidated subsidiary (one in 2018) are mainly amortized by the unit of production method.

(8) Deferred assets

Share issuance costs and development expenses are charged to income when incurred.

(9) Leased assets

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

(10) Impairment on non-current assets

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

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

(11) Provision for directors' retirement benefits

Consolidated subsidiaries recognize provision for directors' retirement benefits at the amount required according to the internal regulations at the end of the fiscal year.

(12) Allowance for doubtful accounts

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

(13) Provision for directors' bonuses

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

(14) Allowance for overseas investment loss

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

(15) Asset retirement obligations

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

(16) Retirement benefits

(a) Method of attributing expected benefit to periods

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

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

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

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

(c) Application of simplified method for smaller enterprises

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

(17) Hedge accounting

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

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

Hedging instruments: Foreign exchange forward contracts and foreign currency deposits

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

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

(18) Recognition of revenue and costs of construction contracts

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

(19) Research and development expenses

Research and development expenses are charged to income when incurred.

(20) Income taxes

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

(21) Application of the Implementation Guidance on Tax Effect Accounting

The Company has applied the "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 28, revised on February 16, 2018) effective from the beginning of the year ended March 31, 2019, and has modified treatment of taxable temporary differences relating to subsidiary shares in non-consolidated financial statements.

The change in the accounting policy has been retroactively applied and the consolidated financial statements for the year ended March 31, 2018 are restated to reflect the retroactive adjustments.

As a result, deferred tax liabilities decreased by ¥2,047 million and retained earnings increased by ¥2,047 million in the consolidated balance sheet as of March 31, 2018 compared to the balances before the retroactive adjustments.

The effect on per share information is presented in Note 19. Amounts per Share.

(22) Change in presentation

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, revised on February 16, 2018) (hereinafter "Partial Amendments to Tax Effect Accounting") effective from the beginning of the year ended March 31, 2019. As a result, deferred tax assets and deferred tax liabilities are presented in "Investments and other assets" and "Non-current liabilities," respectively and certain changes have been made to Note 7. Income Taxes.

As a result of this change, deferred tax assets previously presented in "Current assets" decreased by ¥151 million and deferred tax assets in "Investments and other assets" increased by ¥148 million as of March 31, 2018. Deferred tax liabilities previously presented in "Other" in "Current liabilities" decreased by ¥2,011 million and deferred tax liabilities in "Non-current liabilities" increased by ¥2,008 million as of March 31, 2018.

Total assets decreased by ¥2 million due to offsetting deferred tax assets and deferred tax liabilities of the same taxable entity.

Certain information is added to Note 7. Income Taxes as described in notes 8 (excluding total amount of valuation allowance) and 9 of explanatory notes to the "Accounting Standard for Tax Effect Accounting" as prescribed in Paragraphs 3 through 5 of the Partial Amendments to Tax Effect Accounting. However, information for the year ended March 31, 2018 is not presented in accordance with the transitional treatment prescribed in Paragraph 7 of the Partial Amendments to Tax Effect Accounting.

(23) Accounting standards issued but not yet effective

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued on March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued on March 30, 2018)

(a) Overview

International Accounting Standards Board ("IASB") and Financial Accounting Standards Board of the United States of America ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS No. 15 issued by IASB and Topic 606 issued by FASB) in May 2014. Considering the situation that IFRS No. 15 has become applicable from the fiscal year beginning on and after January 1, 2018 and Topic 606 from the fiscal year beginning after December 15, 2017, ASBJ developed a comprehensive accounting standard for revenue recognition and issued it together with implementation guidance.

ASBJ's basic policy in developing the accounting standard for revenue recognition was to establish accounting standards as a starting point to adopt basic principles of IFRS No. 15 from the viewpoint of comparability of financial statements which is one of benefits of maintaining consistency with IFRS No. 15, and to add alternative treatments to the extent not to impair comparability in case where previous practice and others in Japan should be considered.

(b) Date of application

The "Accounting Standard for Revenue Recognition," etc. are applied effective from the beginning of the fiscal year ending March 31, 2022.

(c) Effect of application

The effect of applying the "Accounting Standard for Revenue Recognition," etc. on the consolidated financial statements is currently under assessment.

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, 2019 and 2018 was ¥2,033 million ($18,481 thousand) and ¥164 million, respectively.

4. Securities and Investment Securities

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

(1) Information of available-for-sale securities as of March 31, 2019 and 2018 is as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2019	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥114,340**	**¥22,552**	**¥91,787**	**$1,039,454**	**$205,018**	**$834,427**
Debt securities:						
Corporate bonds	**30**	**30**	**0**	**272**	**272**	**0**
Other debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**114,370**	**22,582**	**91,787**	**1,039,727**	**205,290**	**834,427**
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**1,326**	**1,464**	**(137)**	**12,054**	**13,309**	**(1,245)**
Debt securities:						
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Other	**2,300**	**2,300**	**—**	**20,909**	**20,909**	**—**
Subtotal	**3,626**	**3,764**	**(137)**	**32,963**	**34,218**	**(1,245)**
Total	**¥117,997**	**¥26,346**	**¥91,650**	**$1,072,700**	**$239,509**	**$833,181**

	Millions of yen		
March 31, 2018	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥143,933	¥23,997	¥119,936
Debt securities:			
Corporate bonds	—	—	—
Other debt securities	—	—	—
Other	—	—	—
Subtotal	143,933	23,997	119,936
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	18	18	—
Debt securities:			
Corporate bonds	—	—	—
Other debt securities	—	—	—
Other	1,700	1,700	—
Subtotal	1,718	1,718	—
Total	¥145,652	¥25,716	¥119,936

Unlisted equity securities, carrying values of which as of March 31, 2019 and 2018 were ¥1,830 million ($16,636 thousand) and ¥2,334 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, 2019 and 2018 is as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2019	Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss
Available-for-sale securities:						
Equity securities	**¥—**	**¥—**	**¥—**	**$—**	**$—**	**$—**
Debt securities:						
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥—**	**¥—**	**¥—**	**$—**	**$—**	**$—**

	Millions of yen		
March 31, 2018	Sales amount	Aggregate gain	Aggregate loss
Available-for-sale securities:			
Equity securities	¥1,350	¥1,350	¥0
Debt securities:			
Corporate bonds	—	—	—
Other debt securities	—	—	—
Other	—	—	—
Total	¥1,350	¥1,350	¥0

(3) During the year ended March 31, 2018, the Group recorded losses on valuation of securities in the amount of ¥284 million (loss on valuation of available-for-sale securities whose fair value is extremely difficult to determine in the amount of ¥283 million and loss on valuation of available-for-sale securities with fair value in the amount of ¥1 million). However, for the ¥283 million of available-for-sale securities (unlisted equity securities) whose fair value is extremely difficult to determine, allowance for overseas investment loss was recorded, and there was no impact on profit and loss during the year ended March 31, 2018. During the year ended March 31, 2019, the Group recorded losses on valuation of securities in the amount of ¥4 million ($36 thousand) (loss on valuation of available-for-sale securities whose fair value is extremely difficult to determine). However, allowance for overseas investment loss was recorded, and there was no impact on profit and loss during the year ended March 31, 2019. In addition, if the market value of the security declines by 50% or more from its acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

(4) Investments in unconsolidated subsidiaries and associates at March 31, 2019 and 2018 were ¥20,297 million ($184,518 thousand) and ¥21,577 million, respectively.

(5) As of March 31, 2019, investment securities of ¥503 million ($4,572 thousand) were pledged as collateral for loans payable of subsidiaries and associates.

5. Reduction Entry for Property, Plant and Equipment

The amount deducted from the acquisition costs of property, plant and equipment due to government subsidies received, etc. as of March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Buildings and structures	**¥ 73**	¥ 31	**$ 663**
Machinery, equipment and vehicles	**4,892**	128	**44,472**
Construction in progress	**—**	5,000	**—**
Other	**198**	—	**1,800**

6. Long-term Loans Payable and Lease Obligations

Long-term loans payable at March 31, 2019 and 2018 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Loans from banks and others			
Unsecured	**¥134,115**	¥140,769	**$1,219,227**
	134,115	140,769	**1,219,227**
Less —current portion	**(6,399)**	(4,809)	**(58,172)**
	¥127,715	¥135,959	**$1,161,045**

As of March 31, 2019, the weighted-average interest rate for the long-term loans payable balance was 3.29%.

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2019 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	**¥ 6,399**	**$ 58,172**
2021	**6,920**	**62,909**
2022	**12,947**	**117,700**
2023	**12,947**	**117,700**
2024	**12,947**	**117,700**
2025 and thereafter	**82,402**	**749,109**
Total	**¥134,562**	**$1,223,290**

The Company and certain consolidated subsidiaries have entered into overdraft agreements and loan commitment agreements amounting to ¥151,652 million ($1,378,654 thousand) with six banks and ¥134,061 million with seven banks at March 31, 2019 and 2018, respectively, to facilitate efficient procurement of working capital. The borrowings outstanding under the overdraft agreements and loan commitment agreements as of March 31, 2019 and 2018 were ¥63,381 million ($576,190 thousand) and ¥69,497 million, respectively, and, therefore, the unused balance was ¥88,271 million ($802,463 thousand) and ¥64,563 million as of March 31, 2019 and 2018, respectively.

Lease obligations included in other in non-current liabilities at March 31, 2019 and 2018 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Lease obligations	**¥2,519**	¥2,877	**$22,900**
Less—current portion	**(348)**	(399)	**(3,163)**
	¥2,171	¥2,477	**$19,736**

The aggregate annual maturities of lease obligations subsequent to March 31, 2019 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	**¥ 348**	**$ 3,163**
2021	**322**	**2,927**
2022	**241**	**2,190**
2023	**193**	**1,754**
2024	**180**	**1,636**
2025 and thereafter	**1,233**	**11,209**
Total	**¥2,519**	**$22,900**

7. Income Taxes

Income taxes imposed on the Company and its domestic consolidated subsidiaries comprise corporation, inhabitants and enterprise taxes. The statutory tax rate applicable to the Company was approximately 28.0% for the year ended March 31, 2019. Income taxes of six foreign consolidated subsidiaries (six in 2018) 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, 2019 and 2018 differ from the statutory tax rates for the following reasons:

	2019	2018
Statutory tax rates	28.0 %	—%
Effect of:		
Unrecognized tax effect accounting on net tax loss carried forward of consolidated subsidiaries	25.4	—
Exploration expenses deducted for income tax purposes	(2.6)	—
Dividends income, etc. not taxable for income tax purposes	(3.3)	—
Utilization of tax loss carried forward	(11.0)	—
Expenses not deductible for income tax purposes	11.2	—
Consolidation adjustment for equity method	(15.5)	—
Change in valuation allowance	37.8	—
Foreign tax	(20.3)	—
Tax rate difference with consolidated subsidiaries	(2.9)	—
Tax system differences for foreign consolidated subsidiaries	(2.5)	—
Consolidation adjustment	(9.0)	—
Tax credits	(46.5)	
Other, net	1.6	—
Effective tax rates	(9.6)%	—%

Reconciliation of the effective tax rates reflected in the consolidated statements of income and the statutory tax rates for the year ended March 31, 2018 is not disclosed because the Company recognized loss before income taxes.

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Deferred tax assets:			
Allowance for overseas investment loss	**¥ 296**	¥ 615	**$ 2,690**
Net tax loss carried forward (Note)	**11,563**	10,562	**105,118**
Defined benefit liability	**1,008**	1,021	**9,163**
Depreciation	**25,559**	27,307	**232,354**
Payable for directors' retirement benefit	**69**	98	**627**
Asset retirement obligations	**4,285**	4,161	**38,954**
Impairment loss on non-current assets	**894**	947	**8,127**
Investment securities	**1,454**	1,161	**13,218**
Tax credit carried forward	**6,795**	1,417	**61,772**
Other	**8,832**	10,829	**80,290**
Subtotal	**60,760**	58,124	**552,363**
Valuation allowance for net tax loss carried forward (Note)	**(5,184)**	—	**(47,127)**
Valuation allowance for total of deductible temporary differences	**(36,399)**	—	**(330,900)**
Total valuation allowance	**(41,584)**	(39,215)	**(378,036)**
Total deferred tax assets	**19,176**	18,908	**174,327**
Deferred tax liabilities:			
Reserve for exploration	**(5,752)**	(6,704)	**(52,290)**
Valuation difference on available-for-sale securities	**(25,355)**	(33,275)	**(230,500)**
Reserve for advanced depreciation of non-current assets	**(230)**	(271)	**(2,090)**
Undistributed earnings of foreign subsidiaries and associates	**(375)**	(600)	**(3,409)**
Foreign tax	**—**	(2,659)	**—**
Reserve for special depreciation	**(84)**	(112)	**(763)**
Defined benefit asset	**(369)**	(406)	**(3,354)**
Other	**(1,626)**	(1,883)	**(14,781)**
Total deferred tax liabilities	**(33,793)**	(45,924)	**(307,209)**
Net deferred tax liabilities	**¥(14,617)**	¥(27,015)	**$(132,881)**

(Note) Net tax loss carried forward and breakdown of deferred tax assets thereof by expiration dates

					Millions of yen
March 31, 2019	Expire in one year or less	Expire after one year through five years	Expire after five years through ten years	Expire after ten years	Total (*2)
Net tax loss carried forward (*1)	**¥47**	**¥248**	**¥933**	**¥10,334**	**¥11,563**
Valuation allowance	**(47)**	**(248)**	**(809)**	**(4,079)**	**(5,184)**
Deferred tax assets	**¥—**	**¥ —**	**¥124**	**¥ 6,254**	**¥ 6,378**

					Thousands of U.S. dollars
March 31, 2019	Expire in one year or less	Expire after one year through five years	Expire after five years through ten years	Expire after ten years	Total (*2)
Net tax loss carried forward (*1)	**$427**	**$2,254**	**$8,481**	**$93,956**	**$105,118**
Valuation allowance	**(427)**	**(2,254)**	**(7,354)**	**(37,092)**	**(47,127)**
Deferred tax assets	**$ —**	**$ —**	**$1,127**	**$56,854**	**$ 57,981**

(*1) Net tax loss carried forward is calculated using the statutory tax rate.

(*2) Deferred tax assets of ¥6,378 million ($57,981 thousand) are recognized for net tax loss carried forward of ¥11,563 million ($105,118 thousand) (calculated using statutory tax rate) for the year ended in March 31, 2019. Valuation allowance has not been recognized for the net tax loss carried forward which is expected to be recoverable judging from the estimated taxable income in the future.

8. Retirement Benefit Plans

(1) Overview of retirement benefit plans

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

(2) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2019	**2018**	**2019**
Retirement benefit obligations at beginning of period	**¥16,226**	¥16,645	**$147,509**
Service costs	**949**	985	**8,627**
Interest costs	**141**	145	**1,281**
Actuarial gains and losses arising during period	**(14)**	(52)	**(127)**
Retirement benefits paid	**(1,293)**	(1,497)	**(11,754)**
Retirement benefit obligations at end of period	**¥16,009**	¥16,226	**$145,536**

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Plan assets at beginning of period	**¥15,144**	¥15,008	**$137,672**
Expected return on plan assets	**151**	150	**1,372**
Actuarial gains and losses arising during period	**(27)**	612	**(245)**
Contribution from employer	**496**	492	**4,509**
Retirement benefits paid	**(903)**	(1,119)	**(8,209)**
Plan assets at end of period	**¥14,861**	¥15,144	**$135,100**

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Defined benefit liability at beginning of period	**¥962**	¥981	**$8,745**
Retirement benefit expenses	**229**	223	**2,081**
Retirement benefits paid	**(128)**	(155)	**(1,163)**
Contribution to plans	**(77)**	(87)	**(700)**
Defined benefit liability at end of period	**¥986**	¥962	**$8,963**

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligations	¥13,542	¥13,693	$123,109
Plan assets	(14,861)	(15,144)	(135,100)
	(1,319)	(1,451)	(11,990)
Unfunded retirement benefit obligations	3,452	3,496	31,381
Net defined benefit liability (asset) on consolidated balance sheet	2,133	2,044	19,390
Defined benefit liability	3,452	3,496	31,381
Defined benefit asset	(1,319)	(1,451)	(11,990)
Net defined benefit liability (asset) on consolidated balance sheet	¥ 2,133	¥ 2,044	$ 19,390

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service costs	¥ 949	¥ 985	$ 8,627
Interest costs	141	145	1,281
Expected return on plan assets	(151)	(150)	(1,372)
Amortization of actuarial gains and losses	62	316	563
Amortization of prior service costs	(103)	(103)	(936)
Retirement benefit expenses calculated by simplified method	229	223	2,081
Retirement benefit expenses on defined benefit plans	¥1,127	¥1,417	$10,245

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service costs	¥(103)	¥(103)	$(936)
Actuarial gains and losses	50	981	454
Total	¥ (53)	¥ 878	$(481)

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service costs	¥ 185	¥ 289	$ 1,681
Unrecognized actuarial gains and losses	1,361	1,311	12,372
Total	¥1,547	¥1,600	$14,063

(h) Plan assets

(i) Breakdown of plan assets

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

	2019	2018
Debt securities	55%	54%
Equity securities	33%	34%
Cash and deposits	3%	3%
Other	9%	9%
Total	100%	100%

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

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

(i) Actuarial assumptions

The main actuarial assumptions for the years ended March 31, 2019 and 2018 (weighted averages) are as follows:

	2019	2018
Discount rate	0.9%	0.9%
Long-term expected rate of return	1.0%	1.0%

9. 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.

10. Leases

Operating leases

Future minimum lease payments under non-cancelable operating leases subsequent to March 31, 2019 are as follows:

(Lessee)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥108	$ 981
2021 and thereafter	255	2,318
Total	¥364	$3,309

11. Financial Instruments

(1) Overview

(a) Policy for measures relating to financial instruments

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

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

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

Securities and investment securities mainly consist of equity securities of partner companies, and for those exposed to market fluctuation risk, fair value evaluation is reported to the directors on a regular basis in accordance with the internal regulations. Investment securities mainly consist of equity securities of INPEX CORPORATION recorded at ¥112,825 million ($1,025,681 thousand) and ¥140,671 million as of March 31, 2019 and 2018, the proportions of which to investment securities are 81.9% and 84.1%, respectively.

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

Notes and accounts payable – trade and accounts payable – other are due within one year. Accounts payable - trade and others relating to LNG are exposed to foreign currency fluctuation risk, and the risk is hedged mainly by foreign exchange forward contracts.

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

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

The Group utilizes foreign exchange forward contracts as mentioned above. Implementation and management of derivative transactions are based on the internal regulations which prescribe the authorization and maximum upper limit of the transactions, and the department responsible for derivative transactions executes transactions after obtaining approval from the person responsible for authorization. The Group enters into transactions only with creditworthy financial institutions to reduce the counterparty risk.

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

(c) Supplemental information on fair value of financial instruments

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

Also, for the contract amount, etc. regarding derivative transactions described in Note 12. Derivative Transactions, the contract amount itself does not indicate market risk related to derivative transactions.

(2) Fair value of financial instruments

Carrying value in the consolidated balance sheets, fair value and the difference as of March 31, 2019 and 2018 are as follows. The financial instruments whose fair value is extremely difficult to determine are not included below.

		Millions of yen	
March 31, 2019	Carrying value	Fair value	Difference
Cash and deposits	¥117,468	¥117,469	¥ 1
Notes and accounts receivable—trade	20,825	20,825	—
Short-term loans receivable	4,575	4,575	—
Securities and investment securities	117,997	118,005	8
Long-term loans receivable	42	42	—
Total assets	¥260,908	¥260,918	¥10
Notes and accounts payable—trade	¥ 7,666	¥ 7,666	¥—
Long-term loans payable	127,715	127,715	0
Total liabilities	¥135,382	¥135,382	¥ 0
Derivative transactions (*)	¥ (3)	¥ (3)	¥—

			Millions of yen
March 31, 2018	Carrying value	Fair value	Difference
Cash and deposits	¥115,313	¥115,314	¥ 1
Notes and accounts receivable—trade	26,073	26,073	—
Short-term loans receivable	6,449	6,449	—
Securities and investment securities	145,652	156,858	11,205
Long-term loans receivable	4,547	4,547	—
Total assets	¥298,036	¥309,243	¥11,206
Notes and accounts payable—trade	¥ 13,544	¥ 13,544	¥ —
Long-term loans payable	135,959	135,967	(7)
Total liabilities	¥149,504	¥149,511	¥ (7)
Derivative transactions (*)	¥ 4	¥ 4	¥ —

			Thousands of U.S. dollars
March 31, 2019	Carrying value	Fair value	Difference
Cash and deposits	**$1,067,890**	**$1,067,900**	**$ 9**
Notes and accounts receivable—trade	**189,318**	**189,318**	**—**
Short-term loans receivable	**41,590**	**41,590**	**—**
Securities and investment securities	**1,072,700**	**1,072,772**	**72**
Long-term loans receivable	**381**	**381**	**—**
Total assets	**$2,371,890**	**$2,371,981**	**$90**
Notes and accounts payable—trade	**$69,690**	**$69,690**	**$—**
Long-term loans payable	**1,161,045**	**1,161,045**	**0**
Total liabilities	**$1,230,745**	**$1,230,745**	**$ 0**
Derivative transactions (*)	**$ (27)**	**$ (27)**	**$—**

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

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

Assets

• Cash and deposits

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

• Notes and accounts receivable—trade

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

• Short-term loans receivable

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

• Securities and investment securities

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

• Long-term loans receivable

The carrying value is deemed as the fair value for long-term loans receivable with floating interest rates since these loans reflect the market interest rates in a short period of time and the carrying value approximates the fair value unless the credit condition has changed dramatically since the loans were executed.

Liabilities

• Notes and accounts payable—trade

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

• Long-term loans payable

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

Derivative transactions

Please refer to Note 12. Derivative Transactions.

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Carrying value:			
Unlisted equity securities	**¥22,127**	¥23,889	**$201,154**

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

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

				Millions of yen
March 31, 2019	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	**¥117,467**	**¥ —**	**¥—**	**¥—**
Notes and accounts receivable—trade	**20,825**	**—**	**—**	**—**
Short-term loans receivable	**4,575**	**—**	**—**	**—**
Securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	**—**	**—**	**—**	**—**
Debt securities (Corporate bonds)	**30**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Long-term loans receivable	**—**	**38**	**3**	**—**
Total	**¥142,897**	**¥38**	**¥ 3**	**¥—**

				Millions of yen
March 31, 2018	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	¥115,312	¥ —	¥—	¥—
Notes and accounts receivable—trade	26,073	—	—	—
Short-term loans receivable	6,449	—	—	—
Securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	500	—	—	—
Debt securities (Corporate bonds)	—	—	—	—
Other	—	—	—	—
Long-term loans receivable	—	4,542	5	—
Total	¥148,335	¥4,542	¥ 5	¥—

				Thousands of U.S. dollars
March 31, 2019	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	**$1,067,881**	**$ —**	**$—**	**$—**
Notes and accounts receivable—trade	**189,318**	**—**	**—**	**—**
Short-term loans receivable	**41,590**	**—**	**—**	**—**
Securities and investment securities:				
Available-for-sale securities with maturities:				
Equity securities	**—**	**—**	**—**	**—**
Debt securities (Corporate bonds)	**272**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Long-term loans receivable	**—**	**345**	**27**	**—**
Total	**$1,299,063**	**$345**	**$27**	**$—**

(4) Scheduled maturities of long-term loans payable

	Millions of yen			
March 31, 2019	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	¥—	¥45,762	¥63,687	¥18,715
Total	¥—	¥45,762	¥63,687	¥18,715

	Thousands of U.S. dollars			
March 31, 2019	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	$—	$416,018	$578,972	$170,136
Total	$—	$416,018	$578,972	$170,136

12. Derivative Transactions

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

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

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

Currency related

No currency related derivative contract was outstanding as of March 31, 2019 and 2018.

(2) Derivative transactions for which hedge accounting is applied

Currency related

	Millions of yen			Thousands of U.S. dollars		
March 31, 2019	Contract amount, etc.	Due after one year	Fair value (*)	Contract amount, etc.	Due after one year	Fair value (*)
Deferral hedge accounting						
Foreign exchange forward contracts						
U.S. dollars (Buying) - Accounts payable—trade	¥3,303	¥—	¥(34)	$30,027	$—	$(309)
U.S. dollars (Buying) - Accounts payable—other	20	—	0	181	—	0
U.S. dollars (Selling) - Accounts receivable—trade	2,197	—	33	19,972	—	300
Allocation method						
Foreign exchange forward contracts						
British pound (Buying) - Accounts payable—other	1	—	(0)	9	—	(0)
Total	¥5,523	¥—	¥ (1)	$50,209	$—	$ (9)

March 31, 2018	Contract amount, etc.	Due after one year	Fair value (*)
			Millions of yen
Deferral hedge accounting			
Foreign exchange forward contracts			
U.S. dollars (Buying) - Accounts payable—trade	**¥1,903**	**¥—**	**¥5**
U.S. dollars (Buying) - Accounts payable—other	**10**	**—**	**(0)**
British pound (Buying) - Accounts payable—other	**14**	**—**	**(0)**
Allocation method			
Foreign exchange forward contracts			
U.S. dollars (Buying) - Accounts payable—other	**14**	**—**	**(0)**
Total	**¥1,942**	**¥—**	**¥3**

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

13. Asset Retirement Obligations

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

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

The Group estimates the periods in which the obligations are paid out to be approximately 2 to 44 years (2 to 35 years in 2018) from acquisition of assets. This estimate is reasonably made based on the plans for decommissioning wells and facilities or the producing lives of fields that the Group reasonably estimates by field if no such plan exists. Discount rates applied are (0.217) to 2.287% ((0.217) to 2.287% in 2018) for domestic obligations and 2.09 to 7% (2.26 to 7% in 2018) for overseas.

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

Changes in the balance of asset retirement obligations for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Balance at beginning of period	**¥18,887**	¥19,160	**$171,700**
Increase due to acquisition of new assets	**55**	1	**500**
Accretion	**361**	485	**3,281**
Settlement	**(252)**	(753)	**(2,290)**
Foreign currency translation adjustment	**(410)**	217	**(3,727)**
Other changes, net (*)	**(3,047)**	(223)	**(27,700)**
Balance at end of period	**¥15,593**	¥18,887	**$141,754**

(*) Other changes, net, are mainly related to the reversal of asset retirement obligations as a result of completion of transfer of oil and natural gas wells and production facilities in the year ended March 31, 2019.

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

The Group has obligations to restore sites to their original condition in accordance with laws, land lease contracts, etc. regarding oil and natural gas production facilities. However, in the natural gas supply business, which is the Group's primary business operation, maintaining and ensuring the stable supply of natural gas is of high public interest; therefore, even after completion of production activities, the Group plans to continue to use some of the assets held for the purpose of producing and selling oil and gas on a permanent basis in order to fulfill the responsibilities as a supplier for users of natural gas by holistically integrating these assets. Thus, the Group does not recognize the relevant asset retirement obligations since it is impossible to determine the timing of decommissioning and estimate asset retirement obligations on a reasonable basis as of March 31, 2019 and 2018.

The following table summarizes the details of balance of asset retirement obligations for the year ended March 31, 2019.

				Millions of yen
March 31, 2019	At beginning of period	Increase	Decrease	At end of period
Under provisions of Petroleum and Inflammable Natural Gas Resources Development Law	**¥ 8,399**	**¥123**	**¥ 2**	**¥ 8,520**
Under provisions of Environmental Protection and Enhancement Act, etc. enforced in Canada	**5,860**	**286**	**3,947**	**2,198**
Under provisions of Act on Prevention of Marine Pollution and Maritime Disaster	**2,245**	**49**	**—**	**2,294**
Under provisions of land lease contracts and other	**2,382**	**444**	**247**	**2,579**
Total	**¥18,887**	**¥902**	**¥4,197**	**¥15,593**

				Thousands of U.S. dollars
March 31, 2019	At beginning of period	Increase	Decrease	At end of period
Under provisions of Petroleum and Inflammable Natural Gas Resources Development Law	**$ 76,354**	**$1,118**	**$ 18**	**$ 77,454**
Under provisions of Environmental Protection and Enhancement Act, etc. enforced in Canada	**53,272**	**2,600**	**35,881**	**19,981**
Under provisions of Act on Prevention of Marine Pollution and Maritime Disaster	**20,409**	**445**	**–**	**20,854**
Under provisions of land lease contracts and other	**21,654**	**4,036**	**2,245**	**23,445**
Total	**$171,700**	**$8,200**	**$38,154**	**$141,754**

14. Contingent Liabilities

At March 31, 2019 and 2018, the Group had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Guarantee obligation for loans payable from financial institutions, etc.:			
INPEX North Caspian Sea, Ltd.	**¥ 9,090**	¥ 9,580	**$ 82,636**
Employees (Housing loans)	**97**	136	**881**
Kumamoto Mirai LNG Co., Ltd.	**51**	57	**463**
Greenland Petroleum Exploration Co., Ltd.	**16**		**145**
Sakhalin Oil and Gas Development Co., Ltd.	**—**	4,871	**—**
Guarantee obligation relating to production facilities:			
Kangean Energy Indonesia Ltd.	**2,382**	3,429	**21,654**
Total	**¥11,638**	¥18,076	**$105,800**

15. Information Related to Consolidated Statement of Changes in Equity

(1) Dividends paid to shareholders

2019

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 28, 2018	Annual General Meeting of Shareholders	Common stock	**¥571**	**$5,190**	**¥10**	**$0.09**	March 31, 2018	June 29, 2018
November 9, 2018	Board of Directors	Common stock	**¥571**	**$5,190**	**¥10**	**$0.09**	September 30, 2018	December 13, 2018

2018

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 28, 2017	Annual General Meeting of Shareholders	Common stock	¥571	¥10	March 31, 2017	June 29, 2017
November 10, 2017	Board of Directors	Common stock	¥571	¥10	September 30, 2017	December 13, 2017

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

2019

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 27, 2019	Annual General Meeting of Shareholders	Common stock	**¥1,714**	**$15,581**	Retained earnings	**¥30**	**$0.27**	March 31, 2019	June 29, 2019

2018

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 28, 2018	Annual General Meeting of Shareholders	Common stock	¥571	Retained earnings	¥10	March 31, 2018	June 29, 2018

16. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Selling, general and administrative expenses:			
Personnel expenses	**¥10,789**	¥11,073	**$98,081**
Significant components of personnel expenses:			
Retirement benefit expenses	**637**	797	**5,790**
Provision for directors' bonuses	**22**	17	**200**
Provision for directors' retirement benefits	**24**	21	**218**
Freightage expenses	**7,517**	4,121	**68,336**
Depreciation	**4,705**	4,396	**42,772**

Research and development expenses included in general and administrative expenses for the years ended March 31, 2019 and 2018 were ¥173 million ($1,572 thousand) and ¥192 million, respectively.

17. Impairment Loss

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

For the year ended March 31, 2018, the Group recorded an impairment loss on the following asset groups:

	Millions of yen
	2018
Business-use assets related to shale gas development and production project:	
British Columbia, Canada	
Buildings and structures	¥ 4,351
Wells	12,141
Mineral resource (Property, plant and equipment - Other)	50,987
Total	¥67,480

For the business-use assets related to shale gas development and production project (upper stream business), the carrying value of the business-use assets was reduced to the recoverable amount as a result of the re-examination of the development plan as an upper stream business alone, separately from Pacific NorthWest LNG project ("PNW business") in which LNG production was considered using the shale gas to be produced from this project as a result of decision made to abandon commercialization of PNW business, and the reduction was recorded as impairment loss in other expenses.

The recoverable amount of the asset group was measured at value in use and calculated by discounting future cash flows at 8.9%.

18. Information on Related Party Transactions

(1) Related party transactions

Principal transactions between the Company and Sakhalin Oil and Gas Development Co., Ltd., the associate accounted for using the equity method, for the years ended March 31, 2019 and 2018 and related balances are as follows.

	Millions of yen		Thousands of U.S. dollars
Transactions:	**2019**	2018	**2019**
Purchase of crude oil (*1)	**¥62,550**	¥40,861	**$568,636**

	Millions of yen		Thousands of U.S. dollars
Balances:	**2019**	2018	**2019**
Accounts payable—trade	**¥—**	¥5,050	**$—**

Principal transactions between the Company and Fukushima Gas Power Co., Ltd. (FGP), the associate accounted for using the equity method, for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
Transactions:	**2019**	2018	**2019**
Pledge of collateral (*2)	**¥31,102**	¥16,916	**$282,745**

(*1) Prices for purchase of crude oil from Sakhalin Oil and Gas Development Co., Ltd. are determined based on the market price.

(*2) The Company provides FGP with certificates of FGP shares held by the Company as collateral for its borrowings from financial institutions. The amount of the transactions indicates the balance of borrowings corresponding to assets pledged as collateral as of the year-end.

(2) Note to significant associates

For the years ended March 31, 2019 and 2018, the summarized consolidated financial information of all associates accounted for using the equity method (11 companies in 2019 and 12 in 2018), including a significant associate, Energi Mega Pratama Inc. is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Total current assets	**¥110,341**	¥164,968	**$1,003,100**
Total non-current assets	**54,701**	86,374	**497,281**
Total current liabilities	**77,137**	112,673	**701,245**
Total non-current liabilities	**27,951**	95,196	**254,100**
Total net assets	**59,953**	43,472	**545,027**
Net sales	**285,533**	228,955	**2,595,754**
Profit (loss) before income taxes	**132,092**	(2,001)	**1,200,836**
Profit (loss)	**82,707**	(28,691)	**751,881**

19. Amounts per Share

Basic earnings (loss) per share is computed based on the profit (loss) attributable to common shareholders of parent and the average number of shares of common stock outstanding during the period, which is 57,152 thousand shares during the years ended March 31, 2019 and 2018.

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
	2019	2018	**2019**
Basic earnings (loss) per share	**¥ 258.44**	¥ (541.70)	**$ 2.34**
Net assets per share	**7,287.32**	7,438.23	**66.24**

Diluted earnings (loss) per share is not disclosed due to the absence of dilutive shares for the years ended March 31, 2019 and 2018.

As stated in Note 2. Significant Accounting Policies (21) Application of the Implementation Guidance on Tax Effect Accounting, the change in the accounting policy has been retroactively applied and the consolidated financial statements for the year ended March 31, 2018 are restated to reflect the retroactive adjustments. As a result, net assets per share as of March 31, 2018 and basic loss per share for the year ended March 31, 2018 increased by ¥35.82 and ¥(0.01), respectively.

20. Cash Flow Information

Reconciliations between cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2019 and 2018 and cash and deposits in the consolidated balance sheets as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Cash and deposits	**¥117,468**	¥115,313	**$1,067,890**
Time deposits with maturities in excess of three months	**(19,134)**	(17,120)	**(173,945)**
Short-term investments with maturities of three months or less, etc.:			
Money management fund and other	**2,300**	1,700	**20,909**
Cash and cash equivalents	**¥100,633**	¥ 99,892	**$ 914,845**

21. Other Comprehensive Income

Reclassification adjustments and income tax benefit (expense) on components of other comprehensive income for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	**¥(28,286)**	¥23,321	**$(257,145)**
Reclassification adjustments	**—**	—	**—**
Pre-tax amount	**(28,286)**	23,321	**(257,145)**
Income tax benefit (expense)	**7,919**	(6,530)	**71,990**
Valuation difference on available-for-sale securities	**(20,366)**	16,791	**(185,145)**
Deferred gains or losses on hedges:			
Gains (losses) arising during the year	**(8)**	162	**(72)**
Reclassification adjustments	**—**	81	**—**
Pre-tax amount	**(8)**	244	**(72)**
Income tax benefit (expense)	**2**	(1)	**18**
Deferred gains or losses on hedges	**(5)**	242	**(45)**
Foreign currency translation adjustment:			
Gains (losses) arising during the year	**(1,705)**	32	**(15,500)**
Remeasurements of defined benefit plans:			
Gains (losses) arising during the year	**(12)**	665	**(109)**
Reclassification adjustments	**(40)**	212	**(363)**
Pre-tax amount	**(53)**	878	**(481)**
Income tax benefit (expense)	**14**	(245)	**127**
Remeasurements of defined benefit plans	**(38)**	632	**(345)**
Share of other comprehensive income of entities accounted for using equity method:			
Gains (losses) arising during the year	**(16)**	11	**(145)**
Reclassification adjustments	**—**	(838)	**—**
Share of other comprehensive income of entities accounted for using equity method	**(16)**	(826)	**(145)**
Changes in equity interest:			
Gains (losses) arising during the year	**—**	2,040	**—**
Total other comprehensive income	**¥(22,132)**	¥18,912	**$(201,200)**

22. Segment Information

(1) Overview of reporting segments

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

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

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

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

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

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

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

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

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

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

Millions of yen

	Reporting segment								
March 31, 2019	Japan	North America	Europe	Middle East	Total	Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales:									
Sales to third parties	¥232,089	¥34,270	¥ —	¥1,620	¥267,980	¥ —	¥267,980	¥ —	¥267,980
Intersegment sales and transfers	18	—	—	13,195	13,213	—	13,213	(13,213)	—
Total sales	232,107	34,270	—	14,816	281,194	—	281,194	(13,213)	267,980
Segment profit (loss)	19,308	(9,751)	(157)	955	10,355	(7)	10,348	(8,034)	2,313
Segment assets	106,848	199,522	4,230	24,736	335,337	—	335,337	319,950	655,288
Other items:									
Depreciation and amortization	12,095	10,348	0	293	22,738	—	22,738	557	23,296
Share of profit (loss) of entities accounted for using equity method	165	(10)	—	2	157	12,392	12,550	—	12,550
Investments in entities accounted for using the equity method	347	—	—	286	634	22,784	23,419	—	23,419
Increase in property, plant and equipment and intangible assets	8,958	1,619	129	—	10,707	—	10,707	195	10,903

									Millions of yen
	Reporting segment								
March 31, 2018	Japan	North America	Europe	Middle East	Total	Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales:									
Sales to third parties	¥219,566	¥9,250	¥ —	¥ 1,812	¥230,629	¥ —	¥230,629	¥ —	¥230,629
Intersegment sales and transfers	0	—	—	30,376	30,376	—	30,376	(30,376)	—
Total sales	219,566	9,250	—	32,189	261,006	—	261,006	(30,376)	230,629
Segment profit (loss)	22,497	(6,615)	(74)	1,366	17,173	(9)	17,163	(8,399)	8,764
Segment assets	109,943	216,914	4,437	11,040	342,334	—	342,334	357,204	699,539
Other items:									
Depreciation and amortization (Note 4)	9,362	13,285	2	293	22,943	—	22,943	426	23,370
Share of profit (loss) of entities accounted for using equity method	(7,783)	(3,330)	—	(5)	(11,118)	8,505	(2,613)	11	(2,601)
Investments in entities accounted for using the equity method	771	11	—	286	1,069	24,399	25,468	—	25,468
Increase in property, plant and equipment and intangible assets	30,772	11,081	80	—	41,934	—	41,934	(132)	41,802

									Millions of yen
	Reporting segment								
March 31, 2019	Japan	North America	Europe	Middle East	Total	Other (Note 1)	Total	Adjustments and eliminations (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales:									
Sales to third parties	**$2,109,900**	**$311,545**	**$ —**	**$14,727**	**$2,436,181**	**$ —**	**$2,436,181**	**$ —**	**$2,436,181**
Intersegment sales and transfers	**163**	**—**	**—**	**119,954**	**120,118**	**—**	**120,118**	**(120,118)**	**—**
Total sales	**2,110,063**	**311,545**	**—**	**134,690**	**2,556,309**	**—**	**2,556,309**	**(120,118)**	**2,436,181**
Segment profit (loss)	**175,527**	**(88,645)**	**(1,427)**	**8,681**	**94,136**	**(63)**	**94,072**	**(73,036)**	**21,027**
Segment assets	**971,345**	**1,813,836**	**38,454**	**224,872**	**3,048,518**	**—**	**3,048,518**	**2,908,636**	**5,957,163**
Other items:									
Depreciation and amortization	**109,954**	**94,072**	**0**	**2,663**	**206,709**	**—**	**206,709**	**5,063**	**211,781**
Share of profit (loss) of entities accounted for using equity method	**1,500**	**(90)**	**—**	**18**	**1,427**	**112,654**	**114,090**	**—**	**114,090**
Investments in entities accounted for using the equity method	**3,154**	**—**	**—**	**2,600**	**5,763**	**207,127**	**212,900**	**—**	**212,900**
Increase in property, plant and equipment and intangible assets	**81,436**	**14,718**	**1,172**	**—**	**97,336**	**—**	**97,336**	**1,772**	**99,118**

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

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

(a) Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Intersegment elimination	**¥ 15**	¥ 3	**$ 136**
Corporate expense (*)	**(8,050)**	(8,402)	**(73,181)**
Total	**(8,034)**	¥(8,399)	**(73,036)**

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

(b) Segment assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Intersegment elimination	**¥ (616)**	¥ (631)	**$ (5,600)**
Corporate assets (*1)	**3,387**	3,619	**30,790**
Other assets (*2)	**317,179**	354,216	**2,883,445**
Total	**¥319,950**	¥357,204	**$2,908,636**

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

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

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

Note 4: Depreciation and amortization in "Other items" of North America segment for the year ended March 31, 2018 includes depreciation of inactive non-current assets of ¥7,797 million, which is recorded in other income (expenses).

(4) Related information

(a) Information by product and service

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Sales to third parties:			
Crude oil	**¥ 94,579**	¥ 89,173	**$ 859,809**
Natural gas	**67,820**	60,431	**616,545**
LNG	**22,913**	21,935	**208,300**
Diluted bitumen	**30,116**	4,512	**273,781**
Contract services	**7,342**	8,484	**66,745**
Oil products/merchandise	**39,820**	40,162	**362,000**
Other	**5,387**	5,930	**48,972**
Total	**¥267,980**	¥230,629	**$2,436,181**

(b) Information by geographical area

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Net sales:			
Japan	**¥156,043**	¥147,303	**$1,418,572**
Canada	**33,555**	8,762	**305,045**
Russia	**62,612**	40,905	**569,200**
Iraq	**14,829**	32,226	**134,809**
Other	**938**	1,431	**8,527**
Total	**¥267,980**	¥230,629	**$2,436,181**

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
	2019	2018	**2019**
Property, plant and equipment:			
Japan	**¥108,657**	¥111,673	**$ 987,790**
Canada	**194,263**	211,236	**1,766,027**
Other	**6,193**	6,579	**56,300**
Total	**¥309,114**	¥329,490	**$2,810,127**

(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, 2019 and 2018.

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

							Millions of yen
	Reporting segment						
March 31, 2019	Japan	North America	Europe	Middle East	Other	Corporate/ eliminations	Total
Impairment loss	**¥30**	**¥—**	**¥—**	**¥—**	**¥—**	**¥—**	**¥30**

							Millions of yen
	Reporting segment						
March 31, 2018	Japan	North America	Europe	Middle East	Other	Corporate/ eliminations	Total
Impairment loss	¥241	¥67,480	¥—	¥—	¥—	¥—	¥67,721

							Thousands of U.S. dollars
	Reporting segment						
March 31, 2019	Japan	North America	Europe	Middle East	Other	Corporate/ eliminations	Total
Impairment loss	**$272**	**$—**	**$—**	**$—**	**$—**	**$—**	**$272**

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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, 2019, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Petroleum Exploration Co., Ltd. and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon L.L.C.

June 27, 2019
Tokyo, Japan

Japan Petroleum Exploration Co., Ltd.

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