INPEX

# Annual Report 2018

Year ended March 31, 2018

About INPEX

## INPEX is the largest oil and gas E&P company in Japan. The Company currently is engaged in approximately 70 projects spread across more than 20 countries worldwide.

## Our Mission

# We are committed to contributing to the creation of a brighter future for society through our efforts to develop, produce and deliver energy in a sustainable way.

## Our Goal

# We aim to become a leading energy company serving an essential role in global society by meeting the energy needs of Japan and countries around the world.

INPEX announced details of its "Vision 2040: Delivering Tomorrow's Energy Solutions" and "Medium-term Business Plan 2018-2022: Growth & Value Creation" in May 2018. For an overview, please refer to the "Message from the President" on page 8 in this Annual Report and the Company's Web site for more information.

▸ https://www.inpex.co.jp/english/ir/strategy.html



CONTENTS



### DISCLAIMER

Information contained in this Annual Report is not an offer or a solicitation of an offer to buy or sell securities. You are requested to make investment decisions using your own judgment.
Although the Company has made sufficient effort to ensure the accuracy of information provided herein, the Company assumes no responsibility for any damages or liabilities including, but not limited to, those due to incorrect information or any other reason.

### FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking information that reflects the Company's plans and expectations. Such forward-looking information is based on the current assumptions and beliefs of the Company in light of the information currently available to it, and involves known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors could cause the Company's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by such forward-looking information. Such risks and uncertainties include, without limitations, fluctuations in the following:

- the price of and demand for crude oil and natural gas;
- exchange rates; and
- the costs associated with exploration, development, production and other related expenses.

The Company undertakes no obligation to publicly update or revise any information in this Annual Report (including forward-looking information).

### NOTES REGARDING FIGURES

Financial figures in this Annual Report have been basically rounded to the nearest unit (e.g., millions, billions) for convenience. The "Project Overview by Region" section (starting on p. 26 basically describes the operating situation as of July 31, 2018. Figures in parentheses denote negative amounts. Natural gas production volume for projects in production is not the volume at wellheads, but corresponds to sales to buyers.
INPEX CORPORATION is listed on the First Section of the Tokyo Stock Exchange under the securities code 1605. The Company is also included in the Nikkei Stock Average (Nikkei 225) and the JPX-Nikkei Index 400 (JPX400).

# Oil and Natural Gas E&P Activities

**Beginning with large-scale projects such as the Ichthys LNG project in Australia and the Abu Dhabi Oil Fields, INPEX is engaged in approximately 70 oil and natural gas projects spread across more than 20 countries worldwide as well as possesses the largest reserves and production volumes of any Japanese company.**

Balanced portfolio of approximately

**70** projects across more than **20** countries worldwide

Oil and natural gas net production volume per day (barrels of oil equivalent)

April 2017-March 2018 average volume per day

**450** thousand barrels

Oil and natural gas reserves (barrels of oil equivalent)

Total proved and probable reserves as of March-end 2018

**5.3** billion barrels

Ichthys LNG Project in Australia
(Commenced production of gas from wellhead in July 2018)
▸LNG annual production capacity

Approximately **8.9** million tons planned

Oil Fields in Abu Dhabi, United Arab Emirates

# Substantial Reserves and Increase in Production Volumes over the medium to long term

Azerbaijan (ACG) offshore production facility

INPEX Snapshot

# Global Gas Value Chain

In Japan, we provide a stable supply of natural gas using an approximately 1,500-km-long natural gas pipeline network. In addition, we are taking measures to build global gas value chains by developing gas demand in Asian and other growth markets as well as by enhancing trading functions.


**Domestic natural gas**

Sales volume

April 2017-March 2018 sales volume **2.12 billion $m^3$**

**Domestic pipeline network**

Approximately **1,500km**

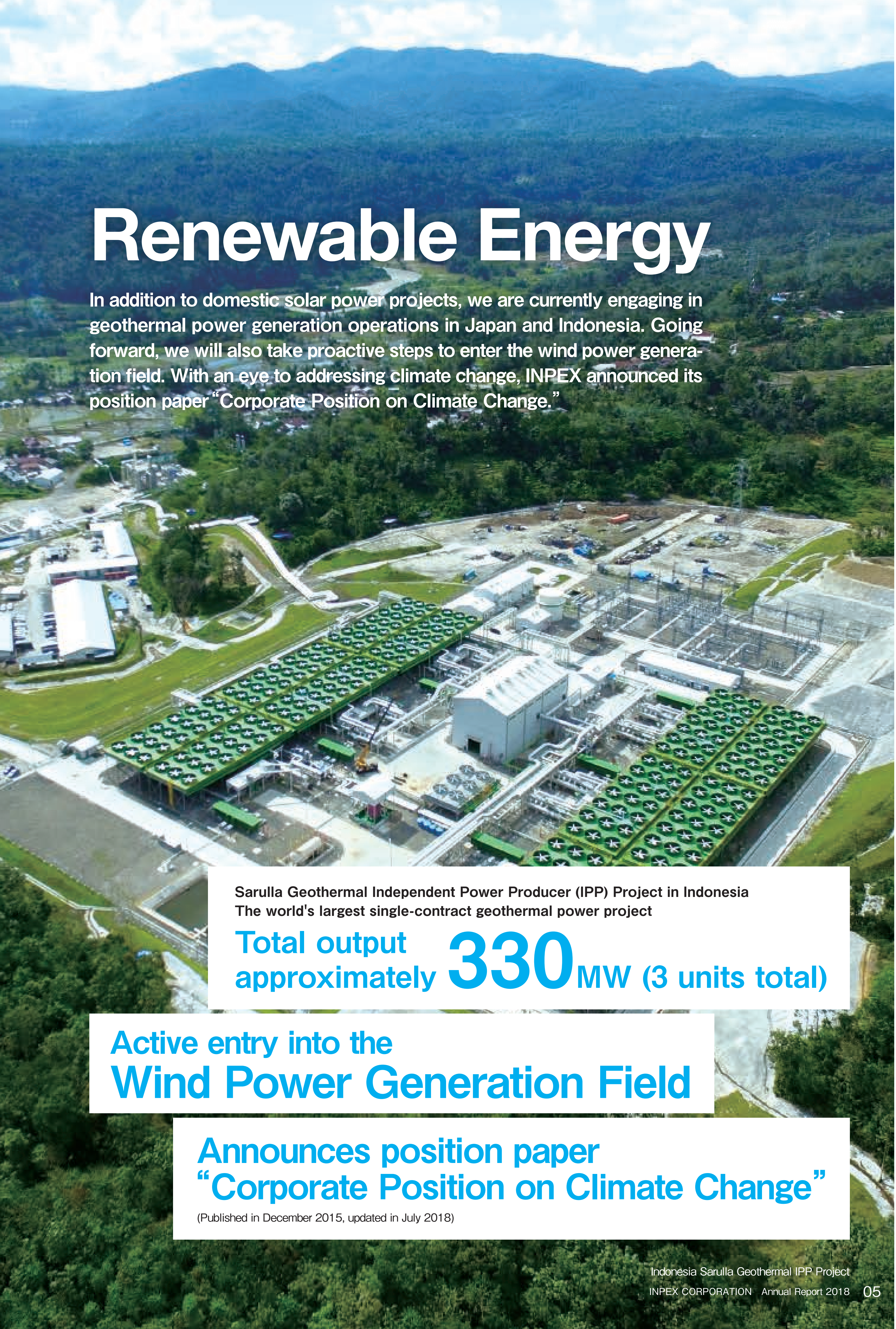
## Develop Gas Demand

in Asia and other growth markets

**Globally**

## Enhance Trading Functions

Japan Naoetsu LNG Terminal



# Renewable Energy

In addition to domestic solar power projects, we are currently engaging in geothermal power generation operations in Japan and Indonesia. Going forward, we will also take proactive steps to enter the wind power generation field. With an eye to addressing climate change, INPEX announced its position paper "Corporate Position on Climate Change."

**Sarulla Geothermal Independent Power Producer (IPP) Project in Indonesia**
**The world's largest single-contract geothermal power project**

## Total output approximately 330MW (3 units total)

## Active entry into the Wind Power Generation Field

## Announces position paper "Corporate Position on Climate Change"

(Published in December 2015, updated in July 2018)

Indonesia Sarulla Geothermal IPP Project

# Message from the Representative Directors

Toshiaki Kitamura
Representative Director
Chairman

Takayuki Ueda
Representative Director
President and CEO

# Under a new organizational structure, we will work diligently to become a leading energy company that is essential to realizing a sustainable society.

In May 2012, INPEX formulated its “Medium- to Long-term Vision” with a view to sustaining future growth. As a part of that vision, we laid out specific measures for the start of production at the Ichthys LNG Project and have since focused on their steadfast implementation. Today, energy companies are expected to meet global energy demand, which will continue to grow. On the other hand, the long-term business environment is undergoing major changes, with greater emphasis on addressing climate change and transitioning to a low-carbon society.

Under these circumstances, we formulated our new, long-term Vision for the period until 2040 named “Vision 2040: Delivering Tomorrow’s Energy Solutions” in May 2018. To achieve this Vision, we have set “sustainable growth of oil and natural gas E&P activities,” “development of a global gas value chain business” and “reinforcement of renewable energy initiatives” as our three business targets. While reducing our own carbon footprint in our operations, we will work to continuously increase our corporate value by conducting operations flexibly to respond to changes in the business environment between now and 2040. Furthermore, we are taking steps to put in place a business platform and policies that will allow us to achieve the new financial and business targets established under the “Medium-term Business Plan 2018-2022: Growth & Value Creation.” Launched in fiscal 2018, this Medium-term Business Plan serves as a foundation for realizing our Vision.

From a management perspective, we have also taken steps to renew existing structures and systems. Accordingly, Toshiaki Kitamura assumed the position of representative director and chairman, while executive vice president Takayuki Ueda was appointed representative director, president and CEO in June 2018.

In pursuit of our mission of contributing to the creation of a brighter future for society by developing, producing and delivering energy in a sustainable manner, we will aim to be a leading energy company serving an essential role in society by responding to the energy requirements of stakeholders in Japan and around the world. As we endeavor to secure the Group’s sustainable growth and development, we ask for the continued support and understanding of all stakeholders.

Representative Director
Chairman
北村 俊昭

Representative Director
President and CEO
上田 隆之

# Message from the President

## “Delivering Tomorrow’s Energy Solutions,” we will evolve into a leading energy company.

**Takayuki Ueda**
Representative Director
President and CEO

**Having assumed the position of representative director, president and CEO in June 2018, it is my pleasure to present the Company's financial results for the fiscal year ended March 31, 2018, and to look back over progress under our Medium- to Long-term Vision announced in May 2012. I would also like to comment on our "Vision 2040: Delivering Tomorrow's Energy Solutions" and "Medium-term Business Plan 2018-2022: Growth & Value Creation" formulated in May 2018. Each of these tools provides a clear indication of the direction we are taking to achieve growth targets.**

## Looking Back on the Past Fiscal Year

Looking at the global business environment, the middle-class population is expanding over the medium to long term. Coupled with such factors as ongoing economic growth mainly in developing countries, demand for primary energy is projected to increase continuously. Among its various forms, interest in natural gas, which produces less $CO_2$ emission than other fossil fuels, and renewal energy, which has a small environmental footprint, is outstripping demand for oil, which nevertheless remains firm.

Recognizing the critical need to secure stable energy supplies and improve its self-development ratio of oil and natural gas, the Japanese government has set a target of 40% or higher for fiscal 2030. As conditions currently stand, this ratio stands at less than 30%. Under the Paris Agreement, which was adopted in 2015, a target was set to limit the increase in average global temperatures as a long-term, globally shared goal. The agreement also proposes the reduction of greenhouse gas emissions and the realization of a low-carbon society, requiring proactive measures by the entire international community.

Turning to external conditions throughout the fiscal year ended March 31, 2018, Brent crude, a benchmark index used by the Company, fell below US$45.00 per barrel at the beginning of June 2017. Buoyed by the easing of oversupply concerns and other factors, the index continued to rebound, closing at around US$70.00 as of the end of the fiscal year. On this basis, average annual Brent crude came in at US$57.85 per barrel, up 16% compared with the previous fiscal year. As far as foreign currency exchange rates are concerned, the market began to trade at the ¥111-level against the U.S. dollar at the start of the fiscal year, remaining unchanged until the end of the year. Entering 2018, the value of the yen appreciated sharply coming in at ¥106.27 as of the end of the fiscal year. Taking these trends into consideration, the yen traded against the U.S. dollar at an annual average rate of ¥110.86. This was ¥2.48, or 2.3%, higher compared with the previous fiscal year average.

Impacted by these external conditions, net sales increased 6.8% compared with the previous fiscal year, to ¥933.7 billion in the fiscal year under review. From a profit perspective, operating income climbed 6.2% year on year to ¥357.3 billion. In contrast, net income attributable to owners of parent fell 12.6% to ¥40.3 billion mainly due to the posting of impairment losses on certain projects.

Net production volume (the total of crude oil and natural gas, crude oil conversion) decreased by 71 thousand barrels a day compared with the previous fiscal year, to 450 thousand barrels of oil equivalent per day (BOED). Proved reserves (the total of crude oil and natural gas, crude oil conversion), which represents a source of future earnings, increased around 0.56 billion barrels of oil equivalent (BOE) compared with the previous fiscal year-end, to roughly 3.86 billion BOE as of March 31, 2018. (The total of proved and probable reserves is approximately 5.3 billion BOE.)

## Results of Initiatives Taken under the Medium- to Long-term Vision

Before commenting on Vision 2040 and our Medium-term Business Plan 2018-2022 both formulated in May this year, I would like to look back over certain initiatives that we have advanced to date. In line with the three business targets identified under the Medium- to Long-term Vision formulated in May 2012, we have focused on the sustainable growth of E&P activities, strengthening of our gas supply chain and reinforcement of renewable energy initiatives. As a part of these endeavors, we have engaged in the following activities.

First, and in focusing on the sustainable growth of E&P activities, we have channeled our energies toward the start-up of operations mainly at the Ichthys LNG Project and placing this business on a firm track. The significance of the Ichthys LNG Project cannot be overstated. It is extremely important not only for this Company but also for Japan as a source of LNG supply. Production of gas from the wellhead commenced in July this year following the completion of final safety verifications including an inspection of electrical equipment.

After the start of production, we anticipate that operating expenses will come in at around the same level as the current production cost per barrel of oil equivalent on a peak production basis for the entire Company. This is mainly due to efforts aimed at reducing

# Message from the President

costs. As a result, we believe that the Ichthys LNG Project will deliver an appropriate level of competitiveness even when compared to existing production projects.

Recognizing the considerable potential of areas surrounding the Ichthys Field, we are also looking to aggressively acquire interests in neighboring exploration blocks and to promote exploratory activities. Moving forward, we will continue to engage in evaluation work at several formations where gas already has been discovered. Despite the considerable amount of time required before commercial operations can be realistically considered, we will continue to adopt a positive approach. As a company that is committed to production activities in the Ichthys Field over the long term, the opportunity exists to generate a wide range of synergies with gas development and production operations in surrounding blocks.

Another large-scale initiative is the Abadi LNG Project in Indonesia. After receiving a notification from Indonesian government authorities instructing us to resubmit a plan for the development of onshore LNG in April 2016, we entered into a period of constructive discussions. As a result, we commenced Pre-FEED work based on an onshore LNG development scheme with an annual production capacity of 9.5 million tons in March 2018. In June 2017, the Abadi LNG Project was listed by the Indonesian government as a national strategic project and as a priority infrastructure project in September 2017. Looking ahead, we anticipate the various licensing processes associated with this project will proceed at an accelerated pace. Moving forward, we will leverage our track record at the Ichthys LNG Project, reputation as a major LNG player among a wide range of stakeholders and experience to ensure the success of the Abadi LNG Project.

As far as other significant achievements are concerned, we completed the acquisition of concessions as well as extension arrangements after conducting many years of negotiation with the Emirate of Abu Dhabi of the United Arab Emirates (UAE). In February 2018, we were awarded a 10% participating interest in the Lower Zakum concession offshore Abu Dhabi. This participating interest, which has a term of 40 years, came into effect on March 9, 2018. Given the intense competition with many global energy companies, the acquisition of a 10% participating interest in the Lower Zakum concession, the largest such acquisition within the former ADMA Block, is a major accomplishment. In addition, we have elevated our participating interest in the offshore Abu Dhabi Satah and Umm Al Dalkh concession to 40% and concluded a 25-year extension. Plans are in place to expand the Company's production volumes in the UAE over the medium to long term. On another note, the Company was appointed as Asset Leader for the Lower Zakum Oil Field by the Abu Dhabi National Oil Company (ADNOC) in April 2018. This is the first instance that a company other than an "Oil Major" has been appointed as Asset Leader for a giant offshore field in Abu Dhabi. As Asset Leader of the Lower Zakum Oil Field, we will devote our human and technical resources to the operations at the Lower Zakum Oil Field and play an advisory role to ADNOC. We will also work closely with ADNOC Offshore to achieve production targets, consider and deploy EOR technology most suitable for the Lower Zakum Oil Field, reduce development and production costs and

Onshore gas liquefaction plant at the Ichthys LNG Project

“Production has commenced from the Ichthys LNG Project in Australia, an extremely important source of LNG supply for Japan.”

transfer technical knowledge. In the future, the importance of providing services from both the human resources and technology perspectives is expected to grow in significance. With this in mind, we will do our utmost to fulfill our role and responsibilities.

Turning to the second of the three business targets, strengthening of our gas supply chain, construction work on the Toyama Line, which began in April 2012 and extending around 100 km, was completed in June 2016. The total extent of the Company’s domestic pipeline network now stretches more than approximately 1,500 km. By cultivating demand along the Toyama Line and expanding the volume of supply for gas-fired power generation, natural gas sales in the fiscal year ended March 31, 2018, increased around 11% year on year to 2.12 billion $m^3$. In addition, we have positioned efforts to flexibly and accurately respond to such changes in our operating environment as the full deregulation of gas retail sales in April 2017 as a priority. As a result, we reorganized our natural gas business operations in Japan last year with the aim of further strengthening the domestic gas business. Under the new organizational structure, we will continue to organically link the natural gas sources developed by overseas projects, such as the Ichthys LNG Project, and the natural gas business in Japan.

Finally, regarding the third business target, reinforcement of renewable energy initiatives, commercial operations commenced at the third unit of the geothermal power generation project in the Sarulla Block, located on the island of Sumatra, Indonesia, in May 2018. Together with the first and second units that began operations last year, the total amount of power generated will come in at approximately 330 MW. The Sarulla Geothermal Independent Power Producer (IPP) Project is the world’s largest single-contract geothermal power project. Plans are in place to sell the power generated from this project to Indonesia’s government-owned electricity company for a period of 30 years. In a bid to commercialize the use of geothermal energy, we are also conducting ongoing surveys in Japan including Hokkaido and Akita Prefecture. Looking ahead, we will proactively implement initiatives aimed at promoting renewable energy.

## Vision 2040 and Medium-term Business Plan 2018-2022, Tools for Achieving Growth Targets

In May 2018, INPEX formulated its “Vision 2040: Delivering Tomorrow’s Energy Solutions” and “Medium-term Business Plan 2018-2022: Growth & Value Creation.” Rather than a collection of fanciful ideas, it is my responsibility as the newly appointed president to ensure that this vision and medium-term business plan are brought to fruition. The Company’s operating environment is experiencing volatile change. Internationally, there are signs that shale oil and shale gas are substantially changing the structure of the energy market, while the LNG market continues to undergo a process of deregulation. Amid the lifting of regulations in the electricity and gas markets in Japan, energy operators are taking steps to mutually enter fields that extend beyond existing boundaries. Moreover, we are seeing a rush of new entrants. For these reasons, the composition of the energy industry is undergoing dramatic change. With the electricity, gas and LNG markets in Japan and overseas experiencing a process of deregulation in a wide variety of ways, the need to adopt a market-centric approach is becoming all the more important in order to carry out the initiatives set out under the Company’s Vision 2040 and Medium-term Business Plan 2018-2022. This market-centric approach entails the supply of

# Message from the President

essential products at a price and time the market considers appropriate.

Looking at the landscape of energy in the future, we see an increase in global energy demand, with a particularly substantial upswing in demand for natural gas and renewal energy. We also recognize the need for Japan to improve its self-development ratio of oil and natural gas and to proactively address various issues including climate change. With this in mind, we identified the three business targets of (1) sustainable growth of oil and natural gas E&P activities, (2) development of a global gas value chain business and (3) reinforcement of renewable energy initiatives under "Vision 2040."

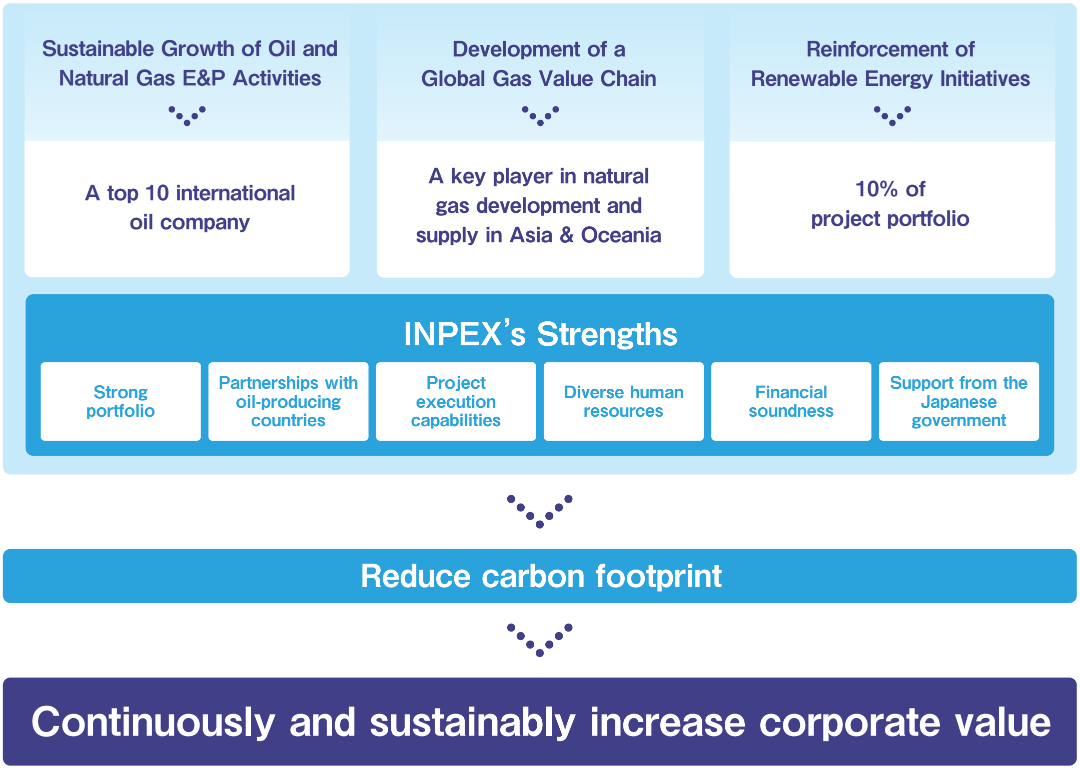
As far as the sustainable growth of oil and natural gas E&P activities, a core business and first business target, is concerned, we will target net production of 1 million barrels per day over the long term while maintaining and expanding reserves, and significantly increase net income and cash flow from operations while improving capital efficiency. Through these means, we will achieve our goal of becoming one of the top 10 international oil companies in terms of production volume, reserves, profitability, technical capabilities, and other criteria.

In working to develop and supply natural gas, our second business target, we will further develop our gas supply chain, the bedrock of our domestic business, while working to develop a global gas value chain. We will also maximize the value of the Ichthys and Abadi projects, as well as other upstream gas projects, with the aim of becoming a key player in the development and supply of natural gas in the Asia and Oceania region.

In reinforcing renewable energy initiatives to manage climate change, our third business target, we will expand our participation in wind power generation and other areas in addition to our existing geothermal power business, which draws on synergies with our oil and natural gas E&P activities. Taking into consideration contributions to the Company's earnings, we are looking to lift the share of the renewable energy business to 10% of our project portfolio in the long term.

To realize Vision 2040, we have put in place specific targets and initiatives for the period from fiscal 2018 to fiscal 2022 under our Medium-term Business Plan 2018-2022. In concrete terms, and over the five-year period of the plan, we will allocate the approximately ¥2.5 trillion from pre-exploration operating cash flows in order of priority to (1) the reduction of interest-bearing debt (2) shareholder returns and (3) investments for future growth (investments totaling ¥1.7 trillion, of which 30% will be used to fund new projects including exploration costs). We will adopt a disciplined approach toward investment, emphasizing not only volume but also

### Targets for the Period to 2040



economic value and the strategic fit. As a key investment criterion, we will target double-digit percentage IRR on E&P activities.

With an eye toward the sustainable growth of oil and natural gas E&P activities, a specific business target, we have identified key quantitative indicators. These include the production of 700 thousand barrels of oil equivalent per day in fiscal 2022, a three-year average reserve replacement ratio (RRR) of 100% or higher, and the reduction of production cost per BOE to US$5 per barrel. Working toward the development of a global gas value chain business, we will target an annual natural gas supply volume of 2.5 billion cubic meters in Japan. In addition to ongoing marketing and a final investment decision (FID) regarding the Abadi LNG Project, we will cultivate natural gas demand in Asia through active participation in midstream and downstream natural gas operations. As a part of efforts to reinforce renewable energy initiatives, we will push ahead the geothermal power generation business in Japan and globally. At the same time, we will proactively expand our participation in other areas including wind power generation.

Based on each of these initiatives, we have identified specific financial targets. The Company will work diligently to achieve net sales of around ¥1,300 billion, net income attributable to owners of parent of roughly ¥150 billion, cash flow from operations of approximately ¥450 billion and an ROE of 5% or higher in fiscal 2022. These targets are presented on a financial accounting basis. Key assumptions include Brent crude of US$60 per barrel and an exchange rate of ¥110 to the U.S. dollar.

A sound business foundation and infrastructure are essential to achieving the Company's business targets. In addition to redoubling our focus on the practice of CSR management, we will work to reinforce the governance and compliance functions while engaging in local community activities as a matter of course. At the same time, we will strengthen climate change countermeasures; health, safety and environment (HSE) initiatives; human resources development and training; and our technological capabilities.

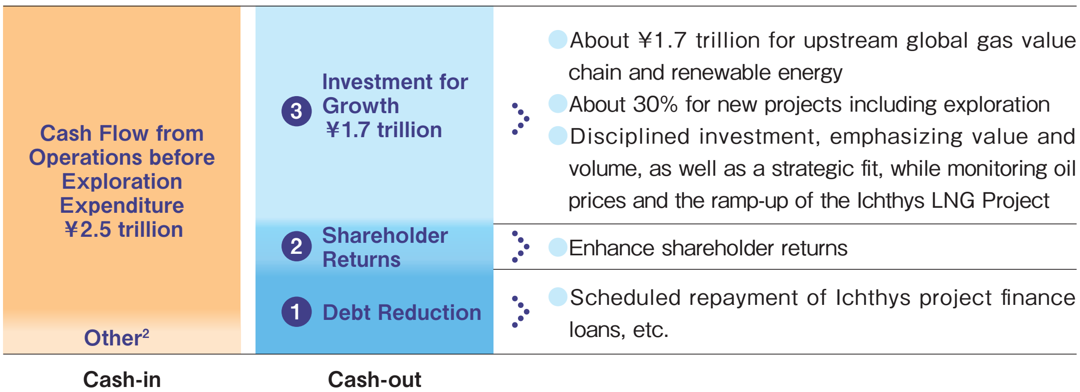
In a bid to respond to climate change, we will reinforce our governance systems while putting in place a business operating system. Moreover, we will engage in activities in each of the business strategy, risk and opportunity assessment, as well as emission management, fields. Collectively, these endeavors will form part of our efforts to proactively contribute to a low-carbon society. From a risk assessment perspective, we incorporated an internal carbon price in the method used to evaluate risk when assessing economic value on the assumption that the countries in which we currently operate will adopt a carbon price policy in the future. By factoring in this internal carbon price in our assessment of economic value, we are positioning $CO_2$ emissions as a key consideration in the investment decision-making process.

In addressing HSE concerns, our efforts to date have been based on the understanding that onsite HSE management capabilities are a competitive strength of the Company. Moving forward, we will thoroughly implement HSE risk management to achieve zero accidents and to prevent any major occurrence. At the same time, we will ramp up environmental management measures that lead to the reduction of our environmental impact.

Taking steps to bolster our organization and human resources, we will continue to promote the creation of a workplace environment in which a broad range of human resources can fully realize

## Cash Allocation for the Five-Year Period of the Medium-term Business Plan[1]

(US$60/bbl and ¥110/US$1)




1. Figures on this page are for guidance only and are inclusive of the Company's equity share (62.245%) of the Ichthys downstream JV. Subject to adjustment as necessary based on such external factors as crude oil prices, investment opportunities, the allocation of shareholder returns, etc.
2. Including asset sales proceeds, equity capital from Japan Oil Gas and Metals National Corporation (JOGMEC), etc.

# Message from the President

their potential by harnessing their independence and maintain a strong sense of mission. In this manner, we will take into consideration the importance of diversity and ensuring a proper work-life balance.

In closing, I would like to comment briefly on our policy on the return of profits to shareholders. In fiscal 2018, we plan to issue a commemorative dividend following the Ichthys LNG Project's start-up and shipment of cargo. Throughout the period of the Medium-term Business Plan 2018-2022, our shareholder return policy is to maintain base dividends not falling below ¥24 per share, which represents the annual dividend of ¥18 per share for fiscal 2017 and the aforementioned commemorative dividend. We are also targeting a payout ratio of 30% or higher. Moving forward, we will progressively strengthen shareholders' return in line with the growth in our financial results.

## Major Business Initiatives

**1 Sustainable growth of oil and natural gas E&P activities**

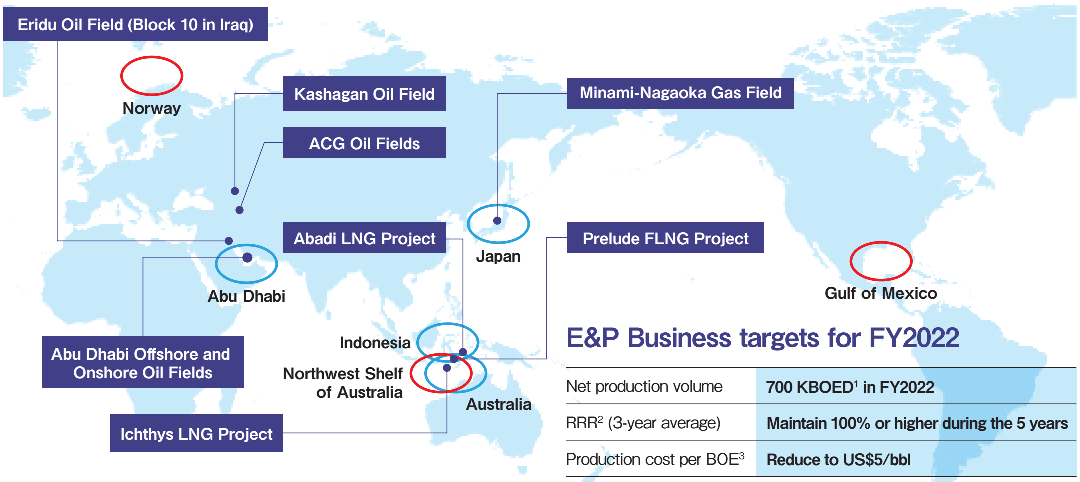
- Major assets/projects
- Core business areas
- Priority exploration areas

**2 Development of a global value chain**

- Achieve annual gas supply volume of 2.5 billion m³ in Japan
- Conduct LNG/gas marketing for Abadi, create gas demand in Asia, etc.

**3 Reinforcement of renewable energy initiatives**

- Promote the geothermal power generation business and enter the wind power generation business
- Enhance R&D for renewable energy technologies




### E&P Business targets for FY2022

| | |
|---|---|
| Net production volume | 700 KBOED[1] in FY2022 |
| RRR[2] (3-year average) | Maintain 100% or higher during the 5 years |
| Production cost per BOE[3] | Reduce to US$5/bbl |

1. Barrels of oil equivalent
2. Reserve Replacement Ratio = Proved reserves increase including acquisition / Production during the period
3. Excluding royalties

## Financial Targets

(US$60/bbl and ¥110/US$1)

| | FY2022 Targets | FY2017 Results (ref.) |
|---|---|---|
| Net sales | Around ¥1,300 billion | ¥933.7 billion |
| Net income attributable to owners of parent | Around ¥150 billion | ¥40.3 billion |
| Cash flow from operations | Around ¥450 billion | ¥278.5 billion |
| ROE | 5% or higher | 1.4% |

- Maintain a sound level of financial strength (target an equity ratio of 50% or higher)
- Maintain financial and corporate reliance even if crude oil prices drop to US$50/bbl

Note: Crude oil price assumption is per one barrel of Brent crude oil; the exchange rate assumption is per U.S. dollar. Targets are on a financial accounting basis. Sensitivity of FY2022 net income attributable to owners of parent to the crude oil price and exchange rate is approximately +¥8.0 billion (-¥8.0 billion) from a US$1/bbl increase (decrease) in the Brent crude oil price and approximately +¥2.0 billion (-¥2.0 billion) from a ¥1/US$1 depreciation (appreciation). See page 5 of the "Medium-term Business Plan 2018-2022" presentation materials (https://www.inpex.co.jp/company/pdf/business_plan.pdf) for other notes

## Continuously and Sustainably Increase Corporate Value

We will continue to strengthen corporate governance in an effort to continuously and sustainably increase corporate value. Among a variety of measures, we already have appointed an independent female outside director to the Company's Board of Directors and are witnessing growing signs of diversity. In addition to the internal debate leading up to deliberations by the Board of Directors, a structure and systems are now firmly in place to facilitate the multifaceted consideration of important matters including such business strategies as the Medium-term Business Plan, the submission and execution of proposals, and lively discussions regarding the rationality and feasibility of strategies by the Advisory Committee.

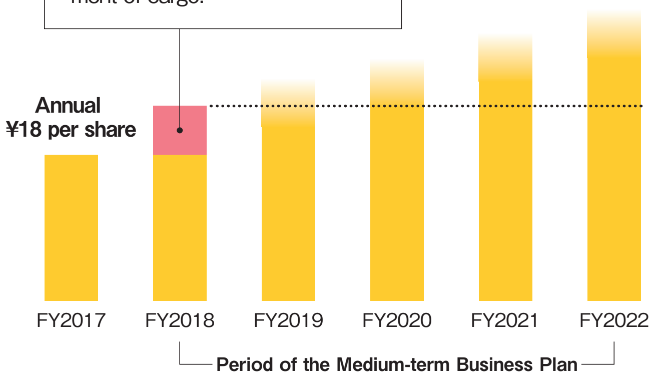
This year marks the 10th anniversary of business integration between Teikoku Oil Co., Ltd., and INPEX Corporation. Building on the fruits of this integration and synergies derived from the strengths and wealth of operating experience in Japan of Teikoku Oil and the world-class overseas assets of INPEX, including projects in Indonesia and Abu Dhabi, we have enjoyed significant growth over the past decade. However, to reach the standards required to become a top 10 international oil company as identified in our Vision 2040, we recognize the need to look beyond quantitative terms and to take up the challenge of improving our qualitative terms including our technological, financial, earnings and management capabilities. With this in mind, it is imperative that we secure further growth going forward. Moreover, we must increase our profile on the world stage. To ensure that we become an internationally recognized name, we must capitalize on every opportunity and actively participate in various events including technology seminars and symposiums. Through these means, we will be better placed to convey our thoughts and understanding. Looking ahead, we will evolve into a leading energy company while showcasing our pride in a corporate culture that allows employees from a wide range of countries and backgrounds to share their ideas. Under the stewardship of a new management structure, we will steadfastly carry out our Medium-term Business Plan as a road map with an eye to the future and our Vision. As we work toward achieving our goals, we kindly request the continued support and understanding of all stakeholders.

## Shareholder Return Policy for the Period of the Medium-term Business Plan

- Maintain a base dividend not falling below ¥18 per share plus the commemorative dividend as below.
- Enhance the annual dividend in stages by increasing the dividend per share in accordance with the growth of the Company's financial results.

**Payout ratio: 30% or higher**

**Commemorative dividend**
In FY2018, the Company plans to issue a commemorative dividend following the Ichthys LNG Project's start-up and shipment of cargo.



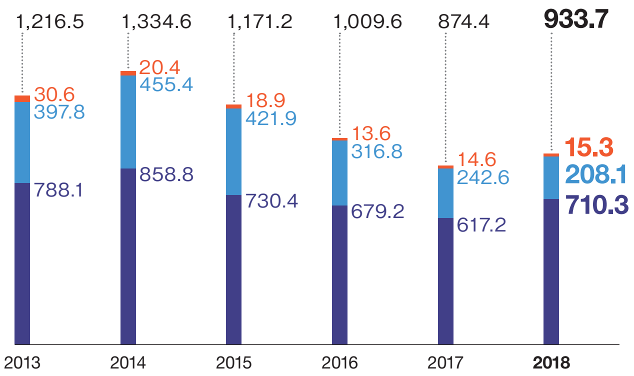

# Financial and Operating Highlights (Five-Year Comparative Graphs)

As of or years ended March 31. Please refer to p. 53 for notes on the major indices.

## Profitability Indices

### Net Sales (by product)

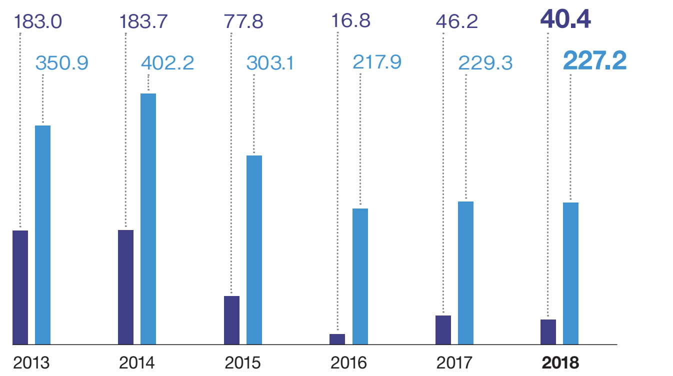
■ Crude oil ■ Natural gas ■ Other (¥ billion)




### Net Income Attributable to Owners of Parent, EBIDAX

(Earnings before interest, depreciation and amortization, and exploration)

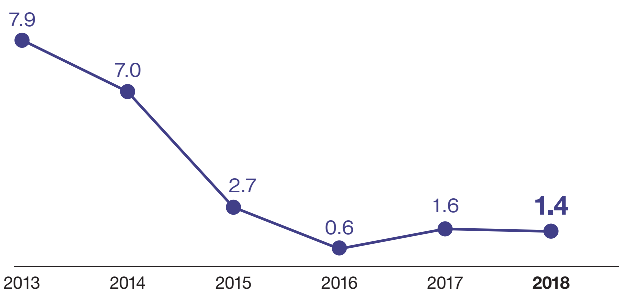
■ Net income attributable to owners of parent ■ EBIDAX (¥ billion)




## Efficiency Index

### Return on Equity (ROE)

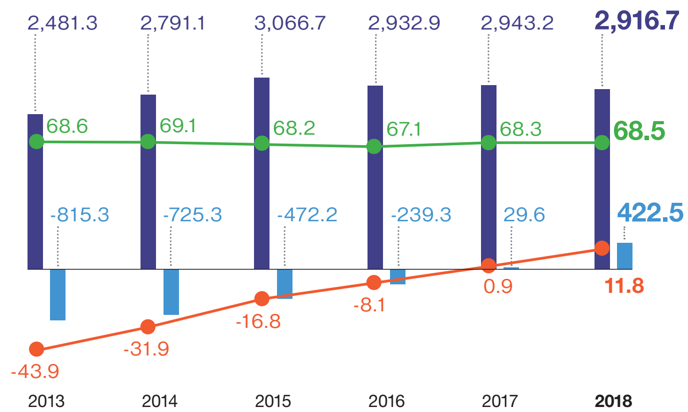
● ROE (%)




## Stability Indices

### Net Assets Excluding Non-Controlling Interests, Equity Ratio, Net Debt, Net Debt/Net Total Capital Employed

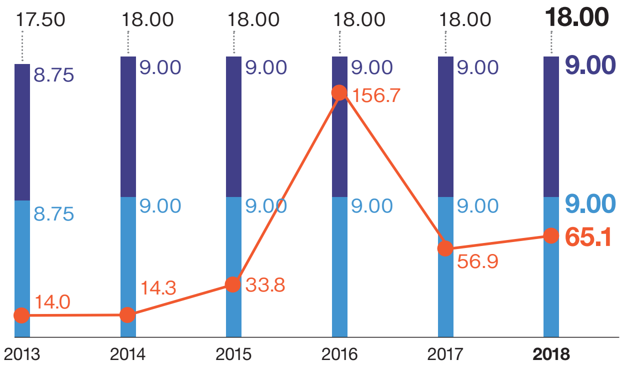
■ Net assets excluding non-controlling interests ■ Net debt (¥ billion)
● Equity ratio ● Net debt/Net total capital employed (%)




## Performance Indices

### Cash Dividend per Share, Payout Ratio

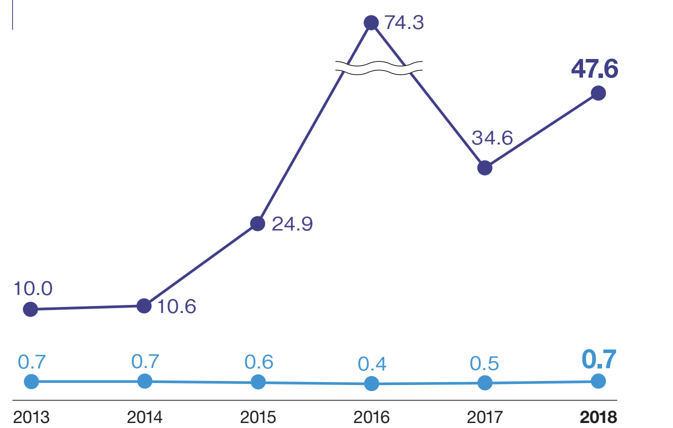
■ Cash dividend per share (2nd quarter end)
■ Cash dividend per share (Fiscal year-end) (Yen)
● Payout ratio (%)




Note: Cash dividend per share is retroactively adjusted for a stock split at a ratio of 1:400 of common stock on October 1, 2013. Cash dividend per share data for each fiscal year are after retroactively adjusting to account for the impact of the stock split.

### Price Earnings Ratio (PER), Price Book-Value Ratio (PBR)

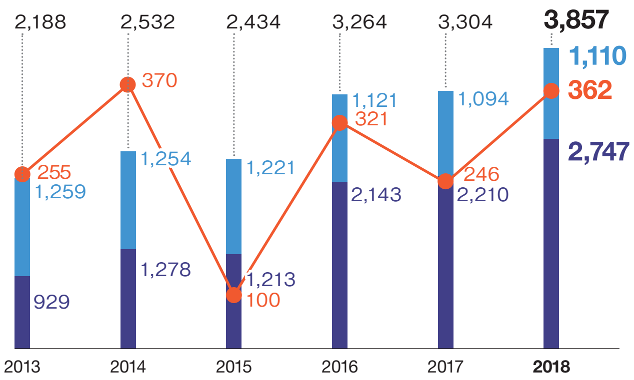
● PER ● PBR (Times)



## Reserve/Production Indices

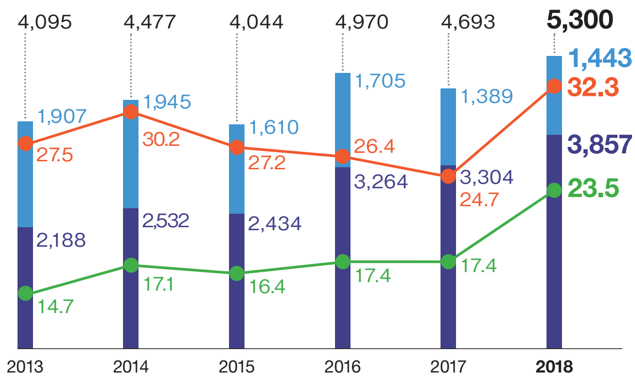
### Net Proved Reserves (by product), Reserve Replacement Ratio (3-year average)

■ Crude oil ■ Natural gas (Million BOE)
● Reserve replacement ratio (3-year average) (%)



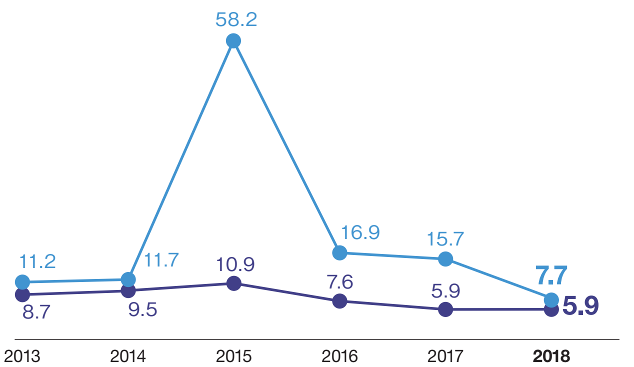

### Net Proved and Probable Reserves, Reserves-to-Production Ratio

■ Proved reserves ■ Probable reserves (Million BOE)
● Reserves (proved + probable)-to-production ratio
● Proved reserves-to-production ratio (Years)




### Average Expenses per BOE Produced, Exploration and Development Cost per BOE (3-year average)

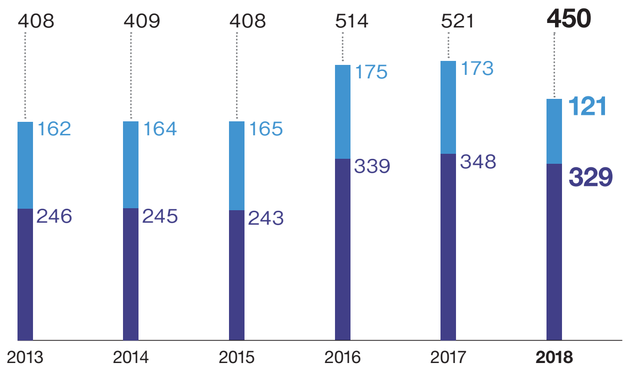
● Average production cost per boe produced (Excluding royalties)
● Exploration and development cost per boe (3-year average) (US$/boe)




Note: Production costs from 2013/3 to 2017/3 have been revised to reflect changes in royalties

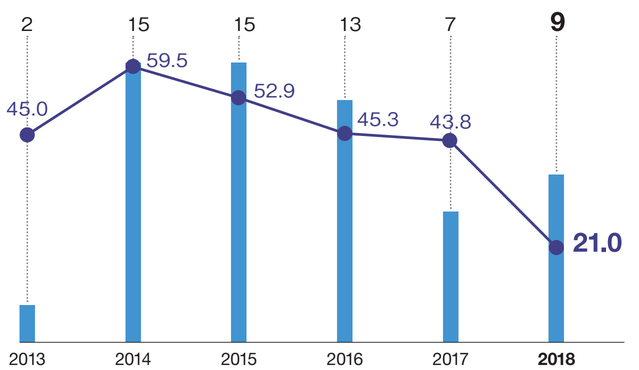
### Net Production (by product, barrels of oil equivalents)

■ Crude oil ■ Natural gas (Thousand boed)




### Exploration and Appraisal Success Ratio (3-year average), Number of Exploratory and Appraisal Wells

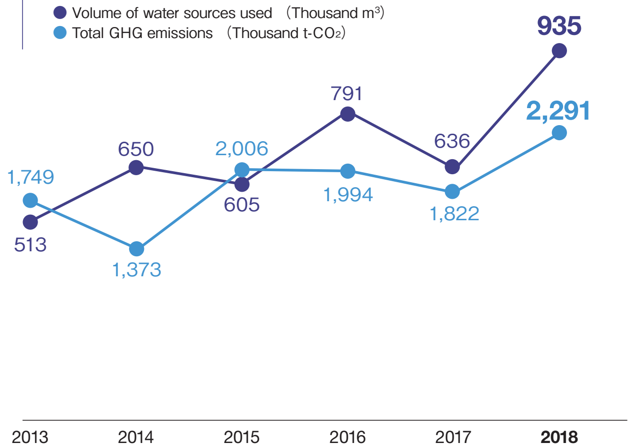
● Exploration success ratio (3-year average) (%)
■ Number of exploratory and appraisal wells (Number)




## The Environment

### Volume of Water Sources Used, Total GHG Emissions

● Volume of water sources used (Thousand m³)
● Total GHG emissions (Thousand t-CO₂)



# The Structure and Mechanism of Oil and Natural Gas Exploration and Development


Signing ceremony of a contract

## Acquisition of Blocks

We collect extensive information on legal system and country risks related to areas in which oil and natural gas are expected to exist. We then apply and bid for mining rights and/or exploration and development rights and enter into a contract for exploration and development.

Geophysical surveys

The business activities of the oil and gas industry can be envisioned as the flow of a river. The upstream consists of development and production of oil and natural gas. The midstream is where products are transported. The downstream refers to refining and sales. Our mainstay business is to handle operations in the upstream including the exploration, production and sales of crude oil and natural gas. As shown in the business flow on this page, upstream business activities can be further classified into the acquisition of blocks, exploration, appraisal, development, production and sales.

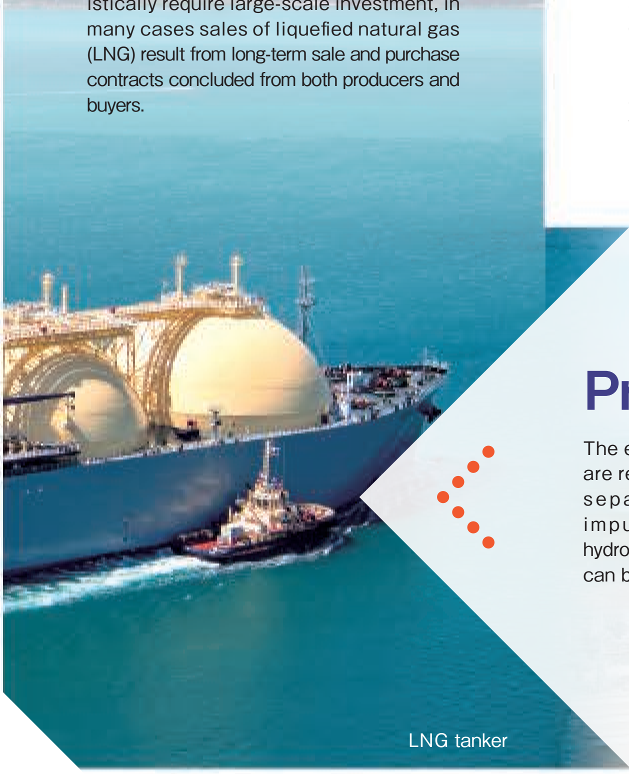
### Where do crude oil and natural gas come from?

Crude oil and natural gas are thought to originate from organic matter, such as the remains of once-living organisms that accumulated at the bottom of seas and lakes, that was then subjected to extreme heat and pressure underground. Crude oil and natural gas that have formed deep underground are lighter than the water in the earth, allowing them to gradually rise to the surface over a long period of time. If the crude oil and natural gas encounter highly dense geological formations on the way to the surface, however, deposits form that become oil and gas fields.

## Sales

There are many methods for selling crude oil linked to spot prices (market prices established one time per transaction), the spot prices themselves being mainly decided based on crude oil, which has become the transaction benchmark. Representative crude oil spot prices are those quoted for Middle East Dubai crude, North Sea Brent crude and West Texas Intermediate (WTI) from the United States, to name but a few.

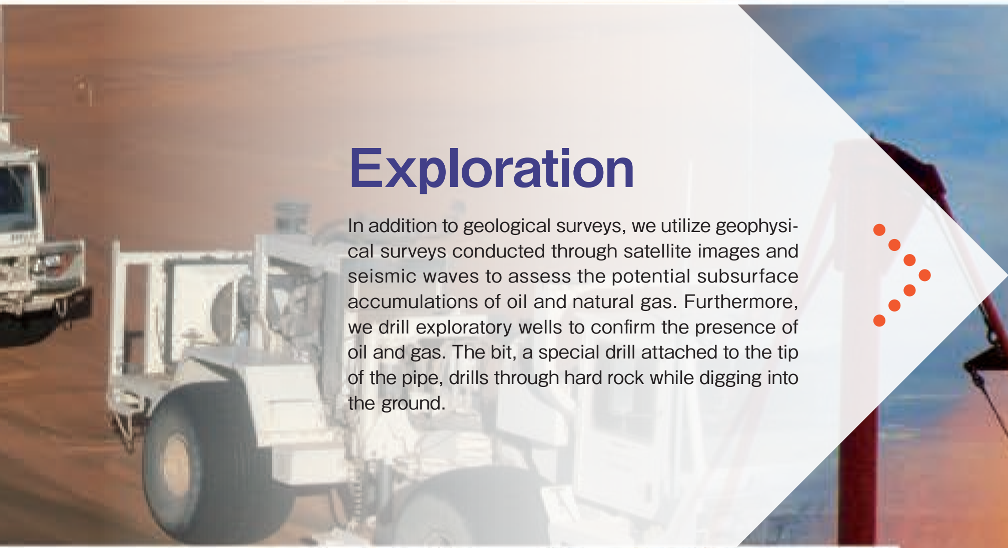
In contrast, because projects characteristically require large-scale investment, in many cases sales of liquefied natural gas (LNG) result from long-term sale and purchase contracts concluded from both producers and buyers.



LNG tanker

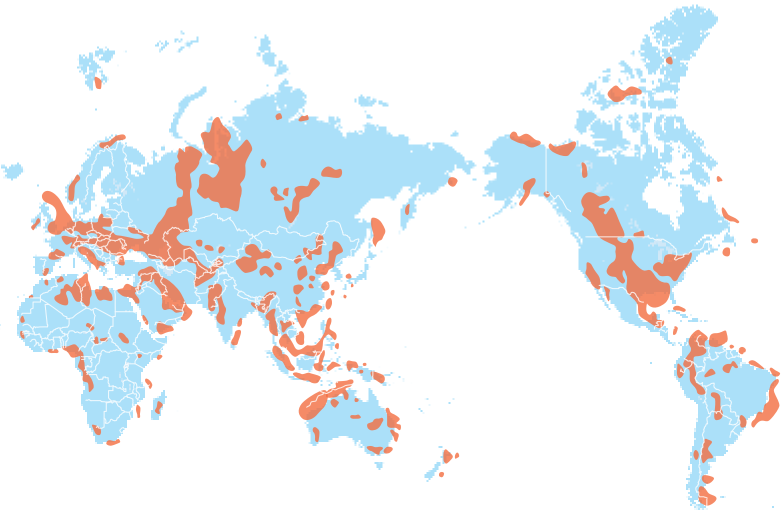
## Production

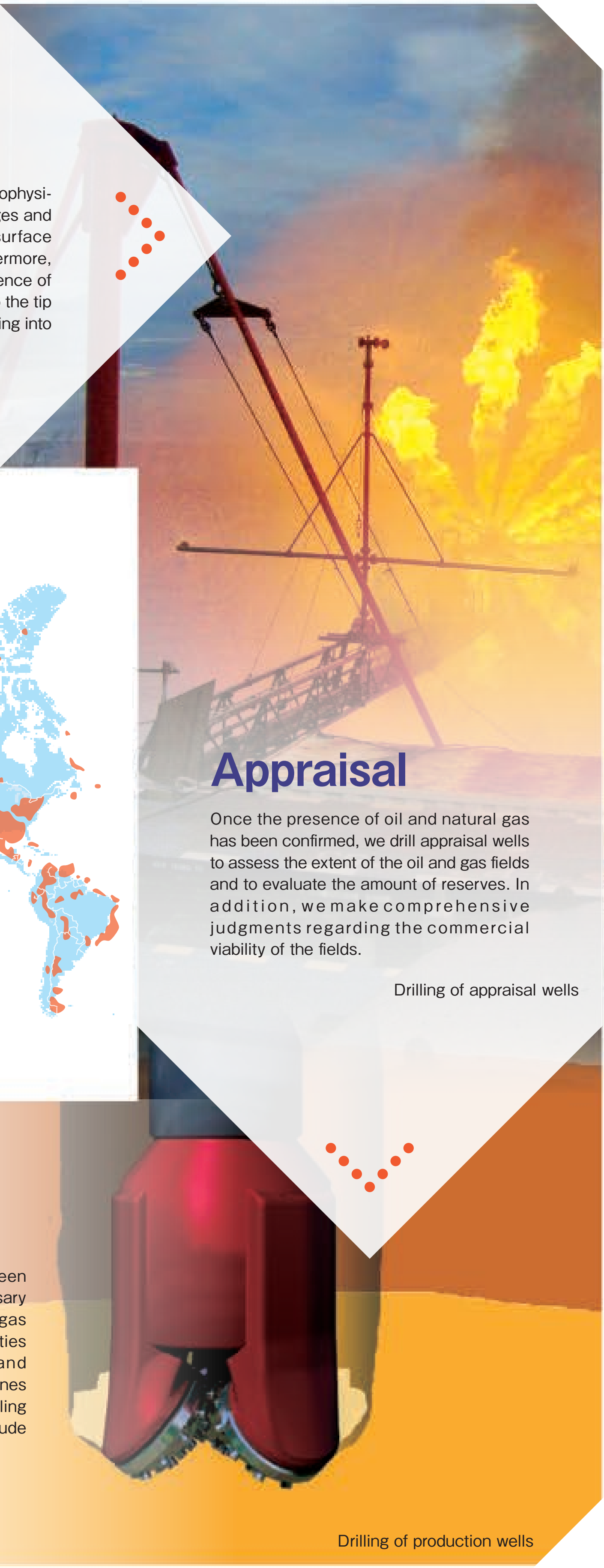
The extracted oil and natural gas are refined and processed. After separating oil and removing impurities (e.g., carbon gas, hydrogen), we ship natural gas that can be used as a product.



# Exploration

In addition to geological surveys, we utilize geophysical surveys conducted through satellite images and seismic waves to assess the potential subsurface accumulations of oil and natural gas. Furthermore, we drill exploratory wells to confirm the presence of oil and gas. The bit, a special drill attached to the tip of the pipe, drills through hard rock while digging into the ground.



# Appraisal

Once the presence of oil and natural gas has been confirmed, we drill appraisal wells to assess the extent of the oil and gas fields and to evaluate the amount of reserves. In addition, we make comprehensive judgments regarding the commercial viability of the fields.

Drilling of appraisal wells

# Development

After a final investment decision (FID) has been made, steps are taken to construct the necessary facilities to engage in crude oil and natural gas production and shipment. This includes facilities that separate resources into their liquid and gaseous states to remove impurities and pipelines to facilitate transportation. In addition, the drilling of production wells is undertaken to extract crude oil and natural gas.

LNG plant

Drilling of production wells

Ichthys PROJECT

# Ichthys LNG Project Production Begins July 2018

In July 2018, the Ichthys LNG Project commenced production of gas from the wellhead following the completion of final safety verifications, making this the first ever large-scale LNG project operated by a Japanese company.

Over the roughly 20 years since acquiring an exploration permit in the block where the project is located in 1998, INPEX has pushed this project toward the commencement of production while gaining the understanding and cooperation of its project partners, contractors, local communities, Australian government authorities and other project stakeholders.

The Ichthys LNG Project is a large-scale LNG project by global standards that is expected to be operational over a period of 40 years and have an annual LNG production volume of approximately 8.9 million tons (planned). INPEX will continue to work toward making this project a success as it receives the cooperation and support of various stakeholders.


PROFITABLE

## Ichthys LNG Project's Long-term Earnings Contributions

In its oil and gas development business, INPEX employs a business model that focuses on stable production and supply, as well as the reinvestment of cash flows obtained from production activities toward the acquisition of new reserves and the discovery and development of oil and gas that contribute to further production revenues. This cycle is the source of sustainable growth as a company.

Expected to have a production life span of 40 years, the Ichthys LNG Project will produce approximately 8.9 million tons per year (planned), which is more than 10% of Japan's LNG import volume, and is expected to significantly contribute to achieving net production volume of 700 thousand BOED for the Company as a whole, one of the fiscal 2022 quantitative targets established under its Medium-term Business Plan 2018-2022.

### 1 Accounting of Revenue Attributable to Sales

As for the products being produced by the Ichthys LNG Project, INPEX already has concluded sales and purchase agreements (SPAs) for 8.4 million tons of annual LNG production and SPA covering the Company's LPG share, etc. Pre-exploration operating cash flow of ¥2.5 trillion is expected over the next five years through to fiscal 2022, with the Ichthys LNG Project expected to contribute more than half of this amount.

### 2 Growth-oriented Investment

Of the approximately ¥2.5 trillion from pre-exploration operating cash flow to be generated over the next five years through to fiscal 2022, plans are in place to allocate roughly ¥1.7 trillion over the next five years to investment for growth for the Company as a whole (around 30% of which will be used for new projects that include exploration investment).

### Earnings Contributions for approximately 40 Years after Production Start-up

### 3 Increasing Reserves

Turning to the reserve volume, the source of its corporate value, INPEX holds a proved and probable reserve volume of 5.3 billion BOE Companywide, as well as an abundance of possible reserves and contingent resources that are not included in probable reserves. Looking ahead, we expect to expand reserves over the medium to long term.

### 4 Growth of Production Volume

On a Companywide basis, INPEX aims to lift its net production volume from approximately 450 thousand BOED in fiscal 2017 to around 700 thousand BOED in fiscal 2022 based mainly on contributions from the Ichthys LNG Project. At the same time, INPEX aspires to achieve a production volume of 1 million BOED over the long term.

PROJECT OVERVIEW

## Ichthys LNG Project Overview


| | |
|---|---|
| Production Volume (planned) | LNG: approximately 8.9 million tons per year<br>LPG: 1.65 million tons per year<br>Condensate: approximately 100 thousand barrels per day (at peak) |
| Reservoir Depth | Approximately 4,000-4,500 m |
| Offshore Production Facilities | CPF, FPSO, SPS, GEP, Flowline, Flexible riser, etc. |
| Gas Export Pipeline | 42" pipeline extending 890 km |
| Onshore LNG Plant | Production, storage and shipping of condensate, LNG and LPG |
| Marketing | LNG: Secured SPAs covering 8.4 million tons per year<br>LPG: Secured SPA covering INPEX's share, etc. |
| Key Permits | Received all licenses in such areas as the environment, GEP business and production |
| Project Finance | US$20 billion in project financing agreements with ECAs and major commercial banks completed in December 2012 |

**Major EPC Contractors**

**Upstream**

- Central Processing Facility (CPF)
  Samsung Heavy Industries (South Korea)
- Floating Production Storage and Offloading (FPSO)
  Daewoo Shipbuilding & Marine Engineering (South Korea)
- Subsea Production System (SPS)
  GE Oil & Gas (US)
- Installation work including Flowlines, Flexible Risers, etc.
  McDermott (US)

**Downstream**

- Onshore LNG Plant
  Consortium consisting of JGC Corporation (Japan), Chiyoda Corporation (Japan), KBR (US)
- Gas Export Pipeline (GEP)
  Saipem (Italy), Mitsui & Co. (Japan), Sumitomo Corporation (Japan), Metal One Corporation (Japan)

VALUE CREATION

## Co-creating Value with Stakeholders

INPEX creates value while engaging with various stakeholders across the E&P business value chain, extending from acquisition of block exploration permits to production and sales. As for the Ichthys LNG Project, the Company is working toward co-creating value through its role as project operator by engaging in regional, social and environmental initiatives together with its partners.

| Acquisition of Blocks | Exploration | Appraisal | Development Preparations | Final Investment Decision (FID) | Development | Production Start-Up |
|---|---|---|---|---|---|---|
| 1998 | 2000-2004 | 2007-2008 | 2009-2011 | 2012.1 | 2012-2018 | 2018.7 |

Safe/steady supply of LNG to Japan

Asia's natural gas market growth

Agile LNG procurement


Contribute to the discovery of blocks via advanced expertise and cutting-edge technologies


Build relationships of trust among communities where INPEX operates


Pursue ongoing initiatives to reduce environmental burdens


Create relationships of mutual trust with local governments over the long term


Secure global EPC contractors


Accelerate projects through partnerships with major oil and gas companies

# Abu Dhabi Oil Fields

## Long-term Negotiations Result in the Acquisition and Extension of Key Oil Concessions

Since 1973, INPEX has participated in crude oil development and production projects at offshore oil fields in Abu Dhabi, United Arab Emirates.

In February of this year, the Company newly acquired a 40-year interest in the offshore Lower Zakum Oil Field and extended previously held interests in the Satah Oil Field and Umm Al Dalkh Oil Field for 25 years.

As a result, this series of long-term ongoing negotiations regarding the acquisition and extension of interests has been concluded, including those for the Upper Zakum Oil Field, for which extension agreements were reached in 2014 and 2017, and for the Abu Dhabi Onshore Concession, for which interests were acquired in 2015. This has led to an outlook for greater production volumes by the Company in Abu Dhabi over the medium to long term based mainly on substantial reserves and greater cost competitiveness.

Steps are being taken to pursue development work at the Upper Zakum Oil Field with the aim of increasing crude oil production capacity to 1 million barrels per day. Moreover, the Company was appointed Asset Leader for the Lower Zakum Oil Field by Abu Dhabi National Oil Company (ADNOC) in April 2018. Working closely with ADNOC, steps are being taken to pursue development work from a leadership position with the aim of increasing the crude oil production capacity of this field to 450 thousand barrels per day.

Steps are also being taken to pursue development work with the aim of increasing crude oil production capacity to 1.8 million barrels per day at the Abu Dhabi Onshore Concession. The concession is one of the world's largest deposits of oil and is made up of 15 principal oil fields.

### Abu Dhabi Oil Fields Topics

1970

**1973**
Japan Oil Development Co., Ltd. (JODCO), established

**1978**
Joint development agreement formalized with Abu Dhabi National Oil Company (ADNOC) to develop the Upper Zakum Oil Field
Joint development agreement formalized with ADNOC to develop the Umm Al-Dalkh structure

1980

**1980**
Joint development agreement formalized with ADNOC to develop the Satah structure, etc.

**1982**
Production from the Upper Zakum Oil Field started

**1985**
Production from the Umm Al Dalkh Oil Field started

**1987**
Production from the Satah Oil Field started

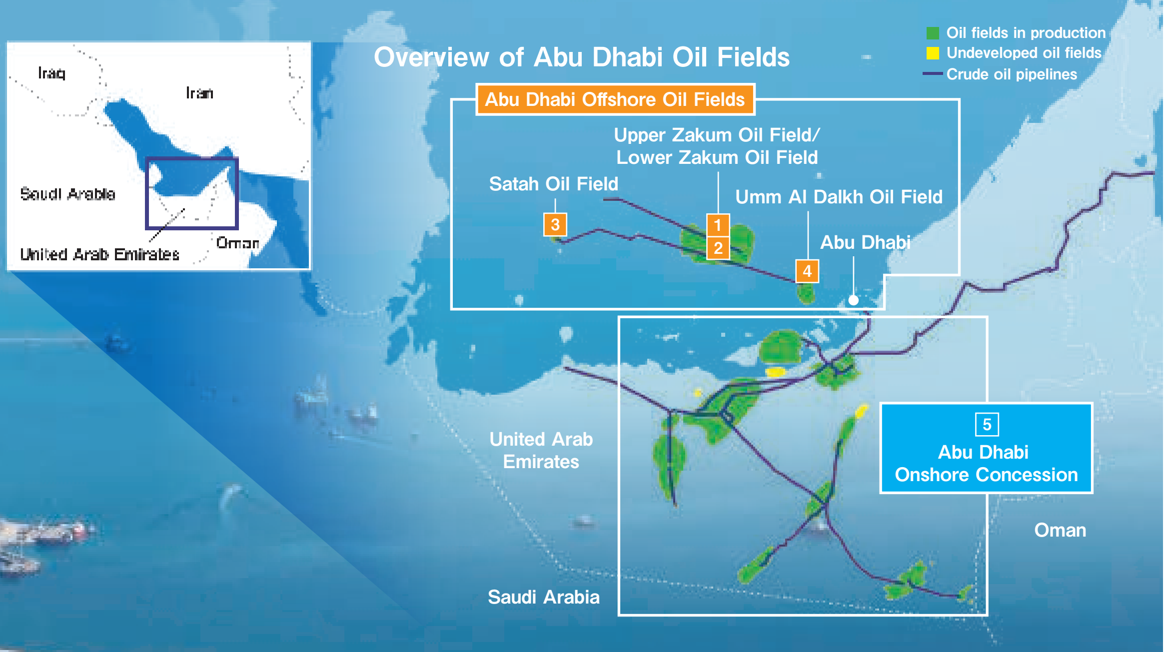
2010

**2014**
Interest in the Upper Zakum Oil Field extended until 2041

Upper Zakum

**2015**
Interest in the Abu Dhabi Onshore Concession acquired (until 2054)

Onshore Concession




## Offshore oil fields

### 1 Upper Zakum Oil Field

| | |
|---|---|
| Contract term | Until December 31, 2051 |
| Participating Interest | JODCO (INPEX wholly owned subsidiary) 12%, ADNOC 60%, ExxonMobil 28% |
| Target production capacity | Approximately 1 million barrels per day |

### 2 Lower Zakum Oil Field

| | |
|---|---|
| Contract term | Until March 8, 2058 |
| Participating Interest | JODCO Lower Zakum Limited (INPEX wholly owned subsidiary) 10%, ADNOC 60%, ONGC-led consortium 10%, CNPC 10%, TOTAL 5%, ENI 5% |
| Target production capacity | Approximately 450 thousand barrels per day |
| Asset leader | As Asset Leader of the Lower Zakum Oil Field, the Company will devote its human and technical resources to support operator development and production operations |

### 3 Satah Oil Field 4 Umm Al Dalkh Oil Field

| | |
|---|---|
| Contract term | Until March 8, 2043 |
| Participating Interest | JODCO (INPEX wholly owned subsidiary) 40%, ADNOC 60% |
| Target production capacity | Approximately 25 thousand barrels per day (Satah Oil Field)<br>Approximately 20 thousand barrels per day (Umm Al Dalkh Oil Field) |

## Onshore oil fields

### 5 Abu Dhabi Onshore Concession

| | |
|---|---|
| Contract term | Until December 31, 2054 |
| Participating Interest | JODCO Onshore Limited (51% owned subsidiary of INPEX) 5%, ADNOC 60%, TOTAL 10%, BP 10%, CNPC 8%, CEFC 4%, GS Energy 3% |
| Target production capacity | Approximately 1.8 million barrels per day |

**2017**

Production capacity of the Upper Zakum Oil Field increased and contract term re-extended to 2051

**2018**

Interest in the Lower Zakum Oil Field acquired (until 2058), interests in the Satah Oil Field and the Umm Al Dalkh Oil Field extended until 2043

Signing Ceremony (photograph provided by ADNOC)

**2018**

INPEX is appointed Asset Leader for the Lower Zakum Oil Field by Abu Dhabi National Oil Company (ADNOC) in recognition of its actions to solve technical problems in oil development and production projects in Abu Dhabi

Japan-UAE Business Forum (photograph provided by JETRO)

Segment Overview

# Engaging in approximately 70 more than 20 countries world

## Eurasia

| | | | |
|---|---|---|---|
| Number of countries | 5 | Number of projects total | 8 |
| Projects in production | 4 | Under development | 0 |
| Preparation for development | 0 | Under exploration | 3 |
| Other | 1 | | |

| Fiscal year ended March 31, 2018 | |
|---|---|
| Net sales (¥ million) | 88,597 |
| Operating income (¥ million) | 21,396 |
| Proved reserves (million BOE) | 271 |
| Net production (million BOE) | 45 |

For more details see P. 32

## Asia & Oceania

| | | | |
|---|---|---|---|
| Number of countries | 5 | Number of projects total | 40 |
| Projects in production | 11 | Under development | 2 |
| Preparation for development | 1 | Under exploration | 26 |

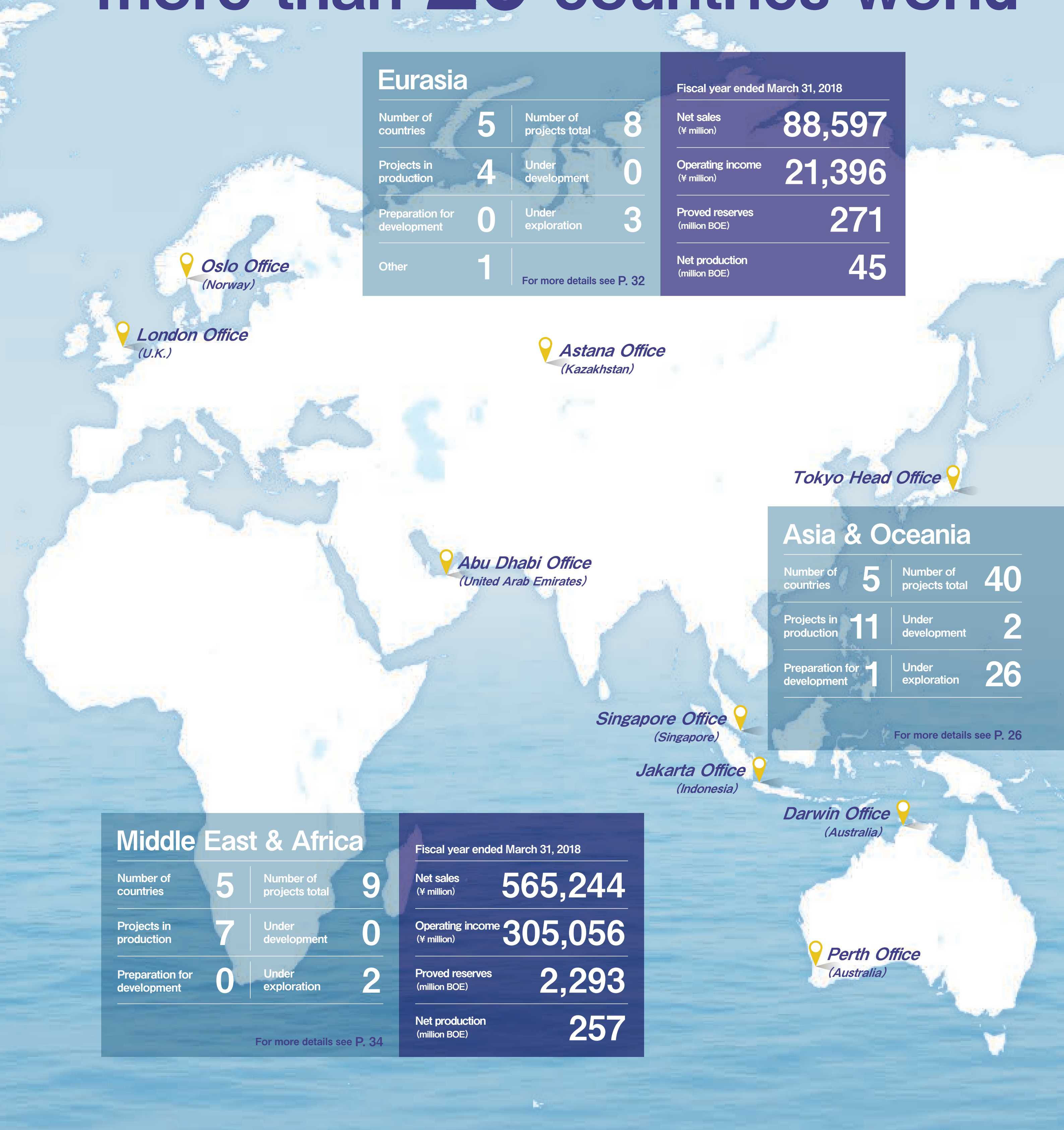
For more details see P. 26

## Middle East & Africa

| | | | |
|---|---|---|---|
| Number of countries | 5 | Number of projects total | 9 |
| Projects in production | 7 | Under development | 0 |
| Preparation for development | 0 | Under exploration | 2 |

| Fiscal year ended March 31, 2018 | |
|---|---|
| Net sales (¥ million) | 565,244 |
| Operating income (¥ million) | 305,056 |
| Proved reserves (million BOE) | 2,293 |
| Net production (million BOE) | 257 |

For more details see P. 34



# projects spread across wide

## Japan

- Minami-Nagaoka Gas Field
- Naoetsu LNG Terminal
- Natural gas pipeline network (Approx. 1,500 km), etc.

For more details see P. 38

Fiscal year ended March 31, 2018

| | |
|---|---|
| Net sales (¥ million) | 120,060 |
| Operating income (¥ million) | 25,256 |
| Proved reserves (million BOE) | 166 |
| Net production (million BOE) | 31 |

Fiscal year ended March 31, 2018

| | |
|---|---|
| Net sales (¥ million) | 148,837 |
| Operating income (¥ million) | 28,405 |
| Proved reserves (million BOE) | 1,119 |
| Net production (million BOE) | 91 |


## Americas

| | | | |
|---|---|---|---|
| Number of countries | 6 | Number of projects total | 15 |
| Projects in production | 9 | Under development | 0 |
| Preparation for development | 1 | Under exploration | 5 |

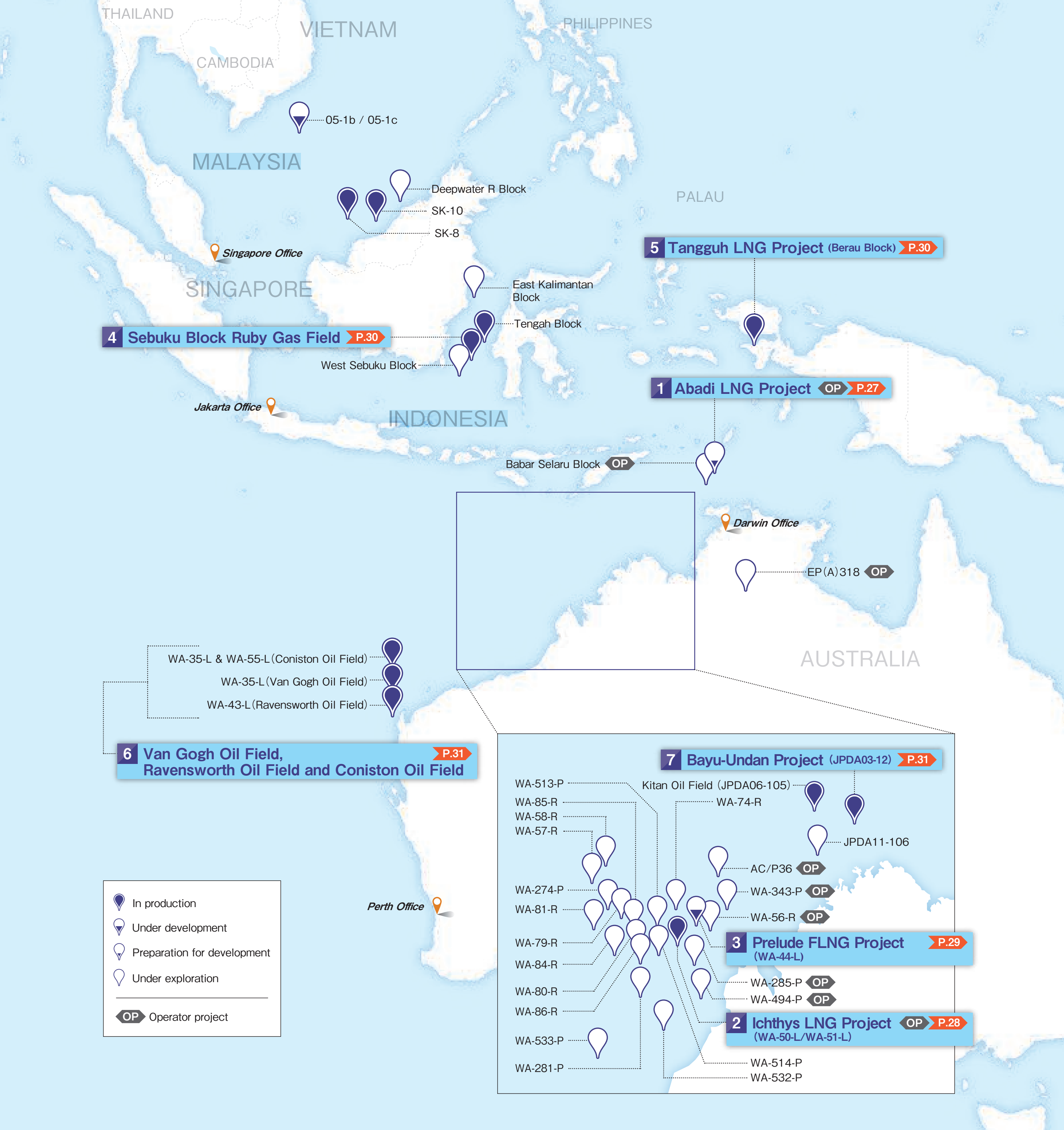
For more details see P. 36

Fiscal year ended March 31, 2018

| | |
|---|---|
| Net sales (¥ million) | 10,964 |
| Operating loss (¥ million) | 10,656 |
| Proved reserves (million BOE) | 9 |
| Net production (million BOE) | 25 |

# Asia & Oceania

In the Asia and Oceania region, INPEX not only holds participating interests in the large-scale Ichthys and Abadi LNG projects but also is actively advancing about 30 exploration projects with growth potential.



## 1 Abadi LNG Project

INPEX acquired a 100% interest in the Masela Block in November 1998 through an open bid conducted by the Indonesian government and subsequently went about exploratory activities as the operator, discovering the Abadi Gas Field through the first exploratory well drilled in 2000. The Company subsequently drilled two appraisal wells in 2002 and four in 2007 -2008, all of which confirmed the presence of gas and condensate reservoirs.

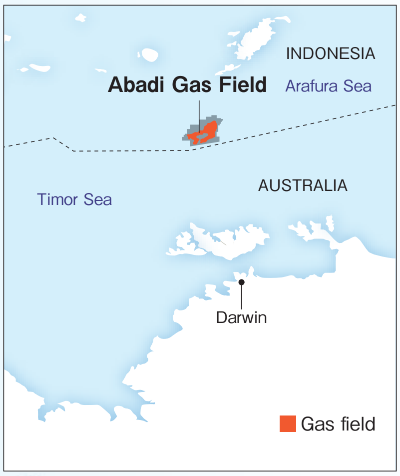
In December 2010, Indonesian authorities approved the initial plan of development (POD-1) deploying a floating LNG (FLNG) plant with an annual processing capacity of 2.5 million tons, and from November 2012 to November 2014, INPEX undertook SURF (subsea, umbilical, riser and flowline) and FLNG FEED work.

INPEX drilled three more appraisal wells in 2013 and 2014 with the aim of expanding the volume of recoverable reserves, confirming a greater volume of natural gas reserves that were certified by the Indonesian authorities.

Having revised its concept selection studies to factor in this increased volume of reserves, INPEX decided it would be optimal to center development on a large-scale FLNG. The Company submitted a revised plan for the development based on an FLNG plant with an annual LNG processing capacity of 7.5 million tons to the Indonesian authorities in September 2015. In April 2016, however, the Company received a notification from the Indonesian authorities instructing it to re-propose a plan of development based on onshore LNG. The Company subsequently entered into constructive discussions with the Indonesian authorities, including in regard to securing economic efficiencies, and in March 2018 launched Pre-FEED work based on an onshore LNG development scheme with annual LNG production capacity of 9.5 million tons.

The Indonesian government recognized the Abadi LNG Project as a National Strategic Project in June 2017. The project was also given Priority Infrastructure Project status in September 2017, continuing to enhanced expectations for an acceleration in various licensing processes.

| Contract area (block) | Project status | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| Masela | Preparation for development | INPEX Masela, Ltd. (December 2, 1998) | INPEX Masela* 65%<br>Shell 35% |




Drillship for the Abadi LNG Project

# Project Overview by Region

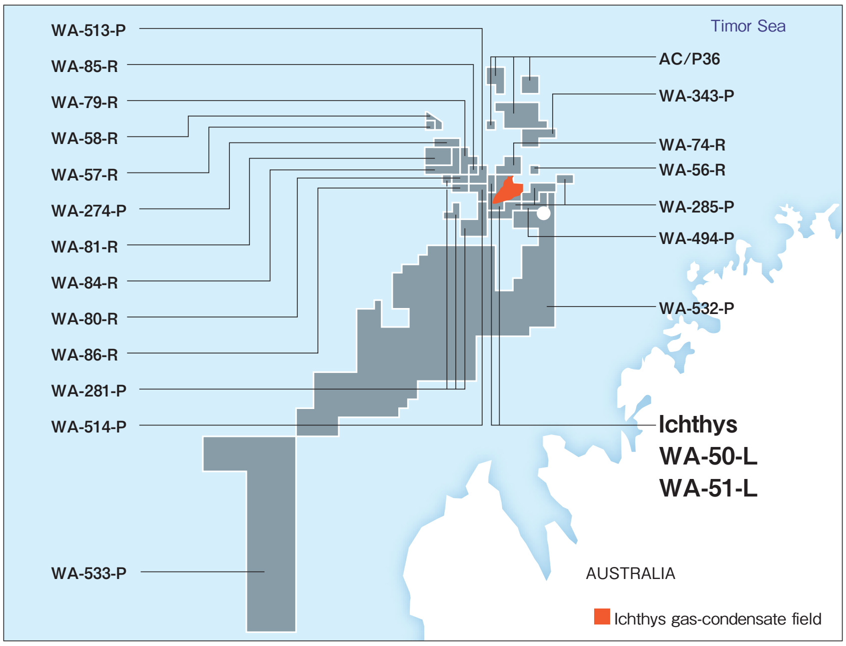
## 2 The Ichthys LNG Project and Surrounding Blocks

### Ichthys LNG Project

The necessary commissioning for the onshore LNG plant first train, the Gas Export Pipeline (GEP), the Floating Production Storage and Offloading (FPSO) facility, the production wells and the subsea production systems was completed in March 2018, while similar commissioning and preparation work for the launch of the Central Processing Facility (CPF) was completed in May. Following the completion of final safety verifications including additional verifications concerning electrical equipment, production of gas from the wellhead commenced in July 2018.

### Surrounding Blocks

INPEX holds 20 exploration blocks in the vicinity of the Ichthys gas-condensate field and is currently engaging in exploration activities. Of this total, exploration work has led to the discovery of gas at 11 blocks (WA-281P, WA-56-R, WA-57-R, WA-58-R, WA-74-R, WA-79-R, WA-80-R, WA-81-R, WA-84-R, WA-85-R, WA-86-R). Evaluation work is now being performed on these discoveries. In the event that substantial amounts of crude oil and natural gas are confirmed as a result of this exploration and evaluation activity, synergies and other effects with the Ichthys LNG Project are expected to further expand business.




| Contract area (block) | Project status | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| WA-50-L | In production (Production of gas from the wellhead) | INPEX Ichthys Pty Ltd (April 5, 2011) | INPEX Ichthys Pty* 62.245% TOTAL 30.000% CPC 2.625% Tokyo Gas 1.575% Osaka Gas 1.200% Kansai Electric Power 1.200% JERA 0.735% Toho Gas 0.420% |
| WA-51-L | | | |
| WA-84-R | Under exploration (blocks under appraisal on the discovery of gas and condensate) | INPEX Browse E&P Pty Ltd (October 21, 2013) | INPEX Browse E&P Pty 40% Santos* 60% |
| WA-85-R | | | |
| WA-86-R | | | |
| WA-56-R | | | INPEX Browse E&P Pty* 60% TOTAL 40% |
| WA-80-R | | | INPEX Browse E&P Pty 20.0000% Santos* 47.8306% Chevron 24.8300% Beach 7.3394% |
| WA-281-P | | | |
| WA-57-R | | | INPEX Browse E&P Pty 20% Santos* 30% Chevron 50% |
| WA-58-R | | | |
| WA-74-R | | | |
| WA-79-R | | | |
| WA-81-R | | | |
| WA-274-P | Under exploration | | |
| WA-285-P | | | INPEX Browse E&P Pty* 62.245% TOTAL 30.000% CPC 2.625% Tokyo Gas 1.575% Osaka Gas 1.200% Kansai Electric Power 1.200% JERA 0.735% Toho Gas 0.420% |
| WA-494-P | | | INPEX Browse E&P Pty* 100% |
| WA-532-P | | | |
| WA-533-P | | | |
| WA-343-P | | | INPEX Browse E&P Pty* 60% TOTAL 40% |
| AC/P36 | | | INPEX Browse E&P Pty* 50% Murphy 50% |
| WA-513-P | | | INPEX Browse E&P Pty 40% Santos* 60% |
| WA-514-P | | | |

Onshore LNG plant

FPSO Ichthys Venturer

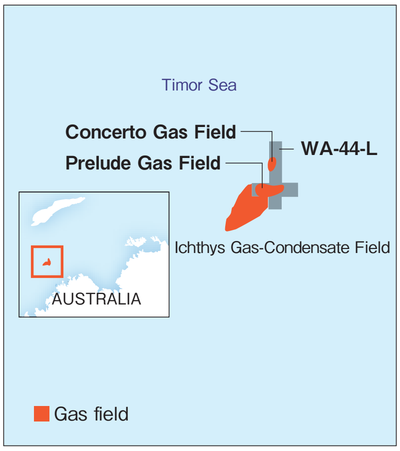
CPF Ichthys Explorer

## 3 Prelude FLNG Project (WA-44-L)

In June 2012, we acquired from Shell a 17.5% interest in the Prelude FLNG Project, which is located in WA-44-L, approximately 475 km north-northeast of Broome, off the coast of Western Australia. A production, liquefaction and shipment project using FLNG, the Prelude FLNG Project consists of the Prelude and Concerto gas fields and will produce approximately 3.6 million tons per year of LNG, 400 thousand tons per year of LPG at peak and approximately 36 thousand barrels per day of condensate at peak.

Shell (the operator) made the FID on the Prelude FLNG Project in May 2011.

The FLNG sailed away from its construction site in Geoje, South Korea, in June 2017 and arrived in Australian waters in July 2017. Thereafter, the FLNG has been moored and is undergoing commissioning.




FLNG commissioning

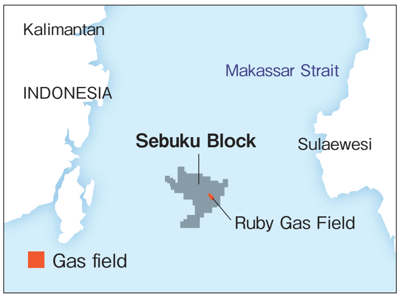
| Contract area (block) | Project status | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| WA-44-L | Under development | INPEX Oil & Gas Australia Pty Ltd (February 28, 2012) | INPEX Oil & Gas Australia 17.5%<br>Shell* 67.5% KOGAS 10.0% OPIC 5.0% |

# Project Overview by Region

## 4 Sebuku Block Ruby Gas Field

Offshore production facility
in the Ruby Gas Field

In September 2010, INPEX obtained a 15% interest in the Sebuku Block off the shore of South Makassar, Indonesia. Thereafter, work began to develop the Ruby Gas Field in the block, and production of natural gas followed in October 2013. The natural gas produced here is transported from offshore production facilities via an undersea pipeline to onshore process facilities that receive products from the Offshore Mahakam Block. The natural gas is then mainly sent via an inland pipeline to a fertilizer plant in East Kalimantan.



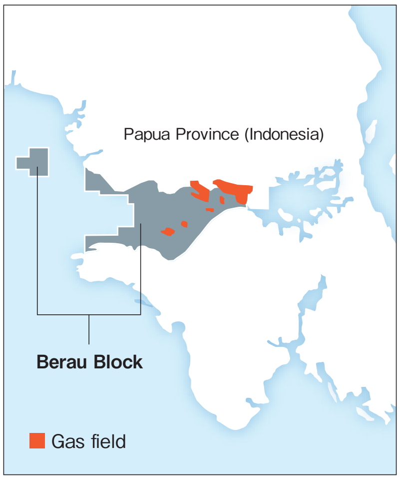

| Contract area (block) | Project status (production on the basis of all fields and average rate of FY2017) | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| Sebuku | In production (Natural gas: 67 MMcf/d) | INPEX South Makassar, Ltd. (May 17, 2010) | INPEX South Makassar 15%<br>Mubadala* 70%<br>TOTAL 15% |

## 5 Tangguh LNG Project (Berau Block)

MI Berau B.V., jointly established by INPEX and Mitsubishi Corporation, acquired an interest in the Berau Block in October 2001. In October 2007, MI Berau Japan Ltd., a joint venture with Mitsubishi Corporation, acquired a stake in KG Berau Petroleum Ltd., effectively increasing the Company's interest to around 7.79% in the Tangguh LNG Project.

In March 2005, the Indonesian Government approved an extension of the production sharing contract (PSC) and project development plans for the Tangguh LNG Project through 2035. Development work commenced thereafter, and the first shipments of LNG began in July 2009.

The FID for expanding the Tangguh LNG Project was announced in July 2016. The Tangguh Expansion Project will add a third LNG process train with 3.8 million tons per annum (mtpa) of production capacity to the existing two trains with 7.6 mtpa of production capacity. Plans call for production to commence in 2020.




Shipping facility

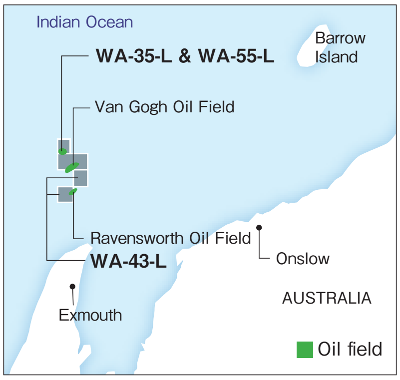
| Contract area (block) | Project status (production on the basis of all fields and average rate of FY2017) | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| Berau | In production (Crude oil: 5 Mbbld<br>Natural gas: 964 MMcf/d) | MI Berau B.V. (August 14, 2001) | MI Berau 22.856% BP* 48.000%<br>Nippon Oil Exploration (Berau) 17.144% KG Berau 12.000% |
| Tangguh Unit | | | MI Berau 16.30% BP* 40.22% CNOOC 13.90%<br>Nippon Oil Exploration (Berau) 12.23% KG Berau 8.56%<br>LNG Japan 7.35% KG Wiriagar 1.44% |

## 6 Van Gogh Oil Field, Ravensworth Oil Field and Others


Van Gogh FPSO vessel

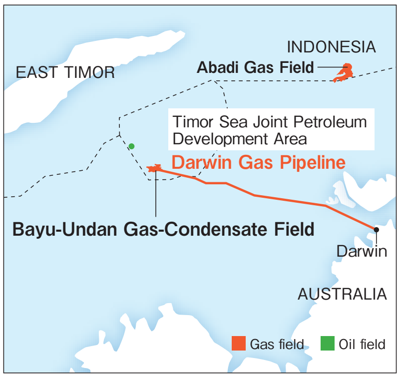
INPEX acquired interests in offshore Western Australia WA-155-P (Part I) in July 1999, after which the Van Gogh and Ravensworth oil fields were discovered. The Australian Government granted production licenses for the above oil fields as the WA-35-L and WA-43-L blocks, at which oil production commenced in February and August of 2010, respectively. The development of the Coniston Oil Field, which saddles WA-35-L and WA-55-L, was started in December 2011, and crude oil production commenced in May 2015.

| Contract area (block) | Project status (production on the basis of all fields and average rate of FY2017) | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| WA-35-L (Van Gogh Oil Field) | In production (Crude oil: 7 Mbbld) | INPEX Alpha, Ltd. (February 17, 1989) | INPEX Alpha 47.499% Quadrant* 52.501% |
| WA-35-L & WA-55-L Unitization area | | | INPEX Alpha 47.499% Quadrant* 52.501% |
| WA-43-L (Ravensworth Oil Field) | In production (Crude oil: 5 Mbbld) | | INPEX Alpha 28.500% BHPBP* 39.999% Quadrant 31.501% |




## 7 Bayu-Undan Project (JPDA03-12)

In April 1993, INPEX acquired an interest in JPDA03-12, a contract area located in the Timor Sea JPDA, which is jointly managed by Australia and East Timor. Exploration within this contract area resulted in the discovery of oil and gas fields. Of these, studies revealed that the Undan structure and the Bayu structure in the adjacent JPDA03-13 contract area were a single structure. The interest holders unitized both contract areas in 1999, allowing joint development of the Bayu-Undan Gas-Condensate Field to proceed. The commercial production and shipment of condensate and LPG started in 2004 and LNG in February 2006.



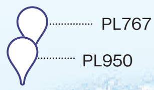


Bayu-Undan offshore facility

| Contract area (block) | Project status (production on the basis of all fields and average rate of FY2017) | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| JPDA03-12 | In production (Crude oil: 14 Mbbld, Natural gas: 521MMcf/d, LPG: 9 Mbbld) | INPEX Sahul, Ltd. (March 30, 1993) | INPEX Sahul 19.2458049% ConocoPhillips* 61.3114766% Santos 19.4427185% |
| Bayu-Undan Unit | | | INPEX Sahul 11.378120% ConocoPhillips* 56.943372% Eni 10.985973% Santos 11.494535% Tokyo Timor Sea Resources (JERA/Tokyo Gas) 9.198000% |

Project Overview by Region

# Eurasia




In the Eurasia region, INPEX has large-scale crude oil projects in Azerbaijan (ACG Oil Fields) and Kazakhstan (Kashagan Oil Field and others). In addition to the Sakhalin 1 Project, some of the fields in the Company's East Siberia Project in Russia have transitioned to the development and production stages. There also appears potential for growth in Norway following the Company's acquisition of exploration licenses in the western Barents Sea.


## 1 Offshore North Caspian Sea Contract Area (Kashagan Oil Field and Others)

In September 1998, INPEX acquired an interest in the Offshore North Caspian Sea Contract Area in Kazakhstan's territorial waters. The Offshore North Caspian Sea Contract Area consists of two blocks: the East Block is about 4,300 km² and the West Block is about 1,275 km² in area (for a total of about 5,575 km²). The Kashagan Oil Field, which is in the East Block, is located in the Caspian Sea at depths of 3-5 m and is approximately 75 km southeast of Atyrau, Kazakhstan.

Since the first exploratory well was drilled in September 1999, the Kashagan Oil Field was confirmed in 2000 and commercial discoveries were announced in 2002. After development work, the Kashagan Oil Field began producing crude oil in September 2013. Production was temporarily halted due to a pipeline gas leak, but production resumed shortly thereafter. Shipments of crude oil commenced in October 2016. Besides the Kashagan field, the presence of hydrocarbon reserves was also confirmed in the surrounding Kalamkas, Aktote and Kairan structures. Appraisal of these three structures is continuing in parallel with the development of the main Kashagan field with a view to expanding the total production of the contract area.

Offshore facility

| Contract area (block) | Project status (production on the basis of all fields and average rate of FY2017) | | Venture company (established) | Interest owned |
|---|---|---|---|---|
| Offshore North Caspian Sea | In production | Crude oil: 206 Mbbld<br>Natural gas: 289 MMcf/d | INPEX North Caspian Sea, Ltd. (August 6, 1998) | INPEX North Caspian Sea 7.56% Eni 16.81%<br>ExxonMobil 16.81% KMG 16.87%<br>Shell 16.81% TOTAL 16.81% CNPC 8.33% |

## 2 ACG Oil Fields

Offshore production facilities

INPEX acquired an interest in the Azeri-Chirag-Gunashli (ACG) Oil Fields in a region of the south Caspian Sea in Azerbaijan in April 2003. At the ACG Oil Fields, oil is being produced at the Chirag, the Central Azeri, the West Azeri, the East Azeri, the Deepwater Gunashli and the West Chirag. In September 2017, INPEX announced an agreement with the State Oil Company of the Azerbaijan Republic (SOCAR) extending the duration of the company's rights by 25 years to December 31, 2049.

| Contract area (block) | Project status (production on the basis of all fields and average rate of FY2017) | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| ACG | In production (Crude oil: 587 Mbbld) | INPEX Southwest Caspian Sea, Ltd. (January 29, 1999) | INPEX Southwest Caspian Sea 9.31% BP* 30.37% Chevron 9.57% SOCAR 25.00% Equinor 7.27% ExxonMobil 6.79% TPAO 5.73% Itochu 3.65% ONGC 2.31% |


## 3 BTC Pipeline Project

The 1,770-km BTC pipeline stretches from Baku in Azerbaijan on the coast of the Caspian Sea to Ceyhan in Turkey. Full-scale operation commenced in June 2006. Total transportation capacity stands at 1.2 million barrels per day, mainly for crude oil produced in the ACG Oil Fields in Azerbaijan.

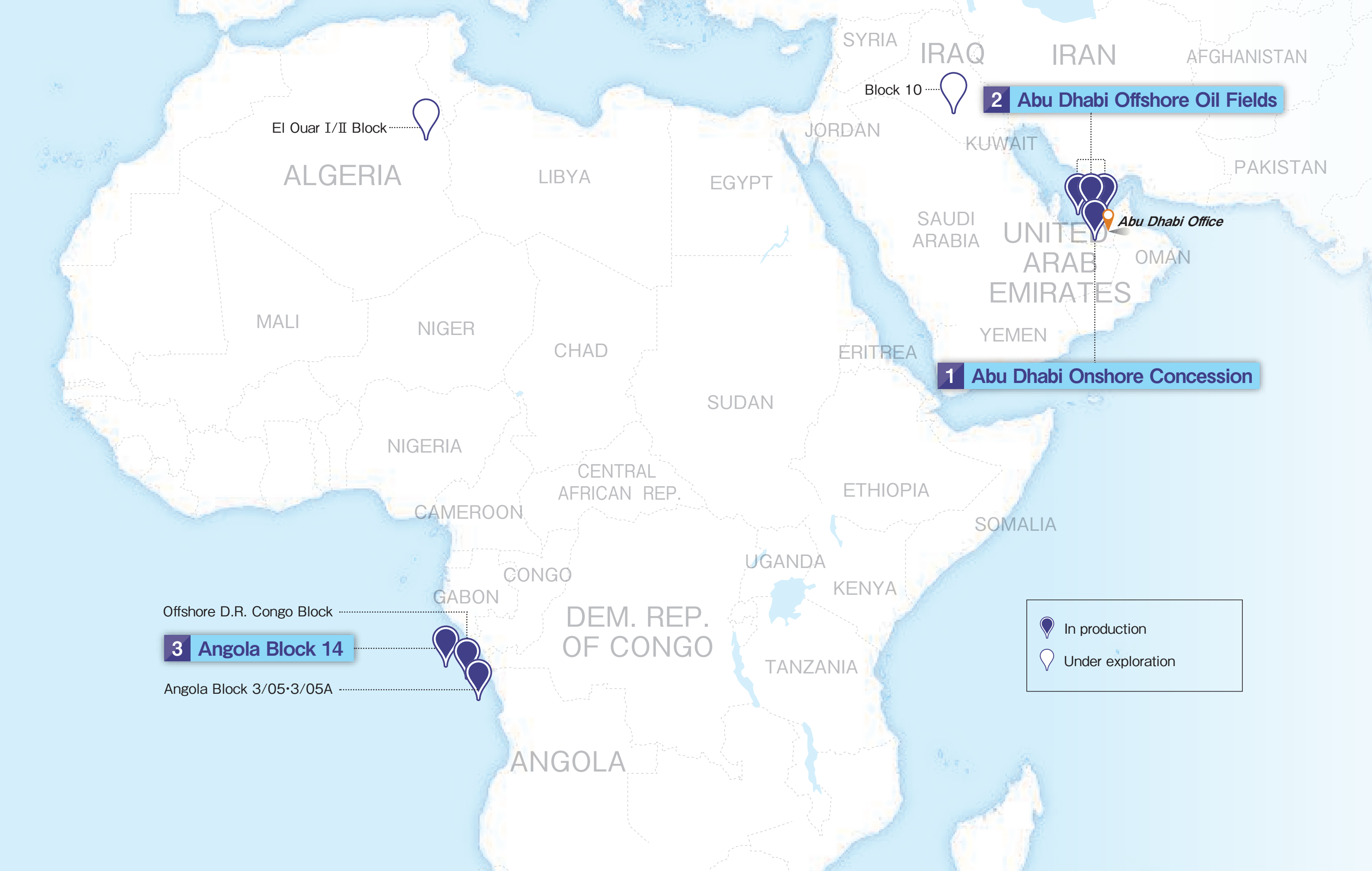
| Contract area (block) | Venture company (established) | Interest owned (*Operator) |
|---|---|---|
| BTC Pipeline | INPEX BTC Pipeline, Ltd. (October 16, 2002) | INPEX BTC Pipeline 2.5% BP* 30.1% Azerbaijan (BTC) Limited 25% Chevron 8.9% Equinor 8.71% TPAO 6.53% Eni 5% TOTAL 5% Itochu 3.4% ExxonMobil 2.5% ONGC 2.36% |

Shipping terminal

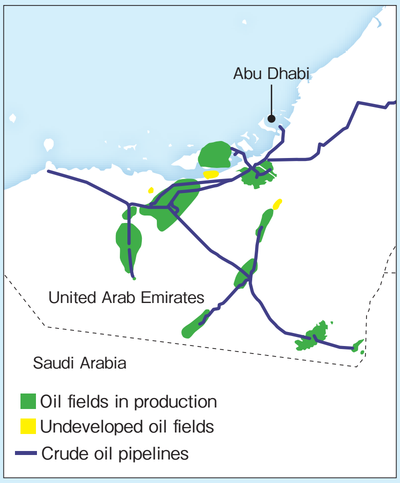
## Project Overview by Region

# Middle East & Africa

In the Middle East, the Onshore Concession and Offshore Oil Fields located near Abu Dhabi in the United Arab Emirates are contributing substantially to the Company's oil production capacity. In Africa, oil production is ongoing at various locations including the Offshore Angola Block 14.




## 1 Abu Dhabi Onshore Concession



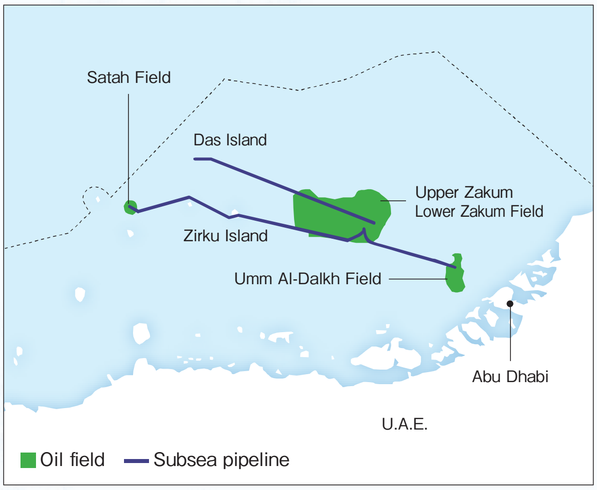

Through its wholly owned subsidiary, Japan Oil Development Co., Ltd. (JODCO), INPEX acquired a 5% interest in the ADCO Onshore Concession in Abu Dhabi in April 2015 following its participation bid. The Company also concluded a 40-year agreement with the Supreme Petroleum Council of the Emirate of Abu Dhabi and Abu Dhabi National Oil Company (ADNOC) that came into effect on January 1, 2015. The concession is one of the world's largest deposits of oil and is made up of 15 principal onshore oil fields in Abu Dhabi of which 12 are currently in production and three remain undeveloped. Steps are being taken to pursue development work with the aim of increasing oil production capacity to 1.8 million barrels per day.

| Contract area (block) | Project status | Venture company (established) | Interest owned |
|---|---|---|---|
| Abu Dhabi Onshore Block | In production | JODCO Onshore Limited (April 15, 2015) | JODCO 5% ADNOC 60% TOTAL 10% BP 10% CNPC 8% CEFC 4 % GS 3% |

## 2 Abu Dhabi Offshore Oil Fields

INPEX maintains rights and conducts development and production operations in four offshore oil fields near Abu Dhabi, including the Upper Zakum Oil Field, the largest Abu Dhabi offshore oil field. The Company acquired an interest in the Lower Zakum Oil Field concession in February 2018, with Abu Dhabi National Oil (ADNOC) appointing INPEX as the asset leader. The Company is playing a leading role in advancing development and working closely with ADNOC and its partners to lift production capacity in the field to 450 thousand barrels per day.

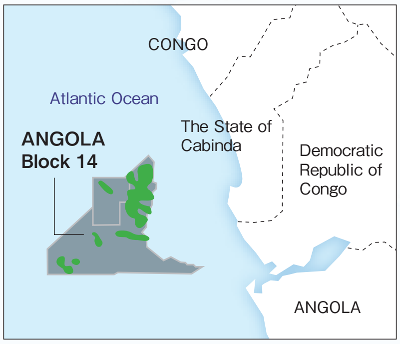
Zirku Island




| Contract area (block) | Project status | Venture company (established) | Interest owned |
|---|---|---|---|
| Lower Zakum Oil Field | In production | JODCO Lower Zakum Limited (January 25, 2018) | JODCO 10% ADNOC 60% Consortium of three Indian companies 10% CNPC 10% TOTAL 5% ENI 5% |
| Upper Zakum Oil Field | | Japan Oil Development Co., Ltd. (JODCO) (February 22, 1973) | JODCO 12.00% ADNOC 60.00% ExxonMobil 28.00% |
| Satah Field/ Umm Al-Dalkh Oil Field | | | JODCO 40.00% ADNOC 60.00% |

## 3 Angola Block 14

Participating through a joint venture company with TOTAL S.A., INPEX acquired a 9.99% indirect interest in the oil-producing Angola Block 14 in February 2013. Located approximately 100 km offshore from Cabinda, Angola, Block 14 includes discovered and undeveloped fields. Crude oil is currently being produced from four development areas, and steps are being taken to pursue exploration potential within the block.




Offshore production facilities

| Contract area (block) | Project status (production on the basis of all fields and average rate of FY2017) | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| Angola Block 14 | In production (Crude oil: 84 Mbbld) | Angola Block 14 B.V. (April 19, 2012) | Angola Block 14 B.V. 20.00% (including 9.99% of INPEX's interest) Chevron* 31.00% Sonangol 20.00% Eni 20.00% Galp 9.00% |

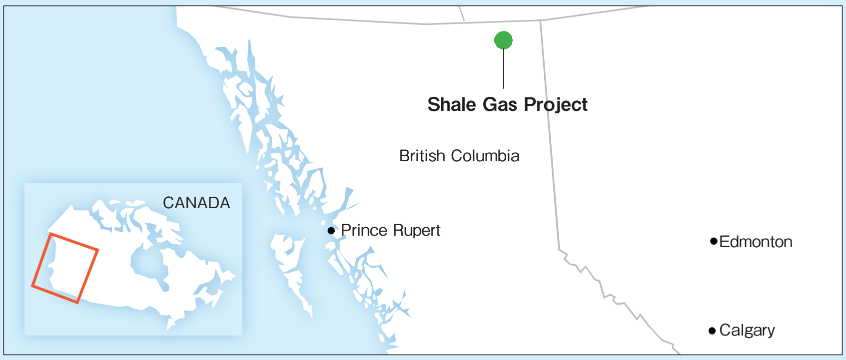
# Project Overview by Region

# Americas

INPEX is engaged in the Lucius deepwater project in the U.S. area of the Gulf of Mexico as well as exploration projects in the Mexican sector of the Gulf of Mexico. In Canada, INPEX participates in shale gas projects and others. The Company is also engaged in offshore oil projects in Brazil.


## 1 Shale Gas Project in Canada

In August 2012, INPEX acquired a 40% interest in the shale gas projects in the Horn River, Cordova and Liard basins in British Columbia, Canada, from Nexen Inc. Production is under way in some areas.




| Contract area (block) | Project status | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| Horn River, Cordova and Liard areas | In production (partly) | INPEX Gas British Columbia Ltd. (November 28, 2011) | INPEX Gas British Columbia 40%<br>Nexen* 60% |

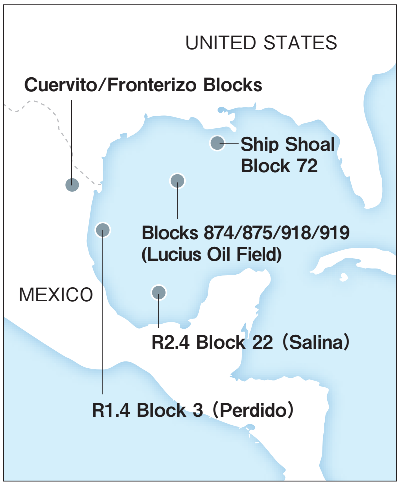
## 2 Gulf of Mexico Projects and Others

In August 2012, INPEX joined the deepwater Lucius Oil Field in the Gulf of Mexico and acquired a 7.2% interest from U.S.-based Anadarko Petroleum Corporation. Oil and gas production at the Lucius Oil Field has proceeded steadily since its commencement in January 2015.

In December 2016, INPEX, Chevron Energía de Mexico, S de R.L. de C.V. (Chevron) and Pemex Exploracióny Producción (Pemex) made a successful joint bid for the first round of deepwater exploration of Block 3 located in the Perdido Fold Belt in the Mexican sector of the northern Gulf of Mexico. INPEX holds a 33.3333% participating interest and is conducting exploration activities.

Alongside Chevron and Pemex, the Company made a successful bid for rights to Block 22 in the Mexican sector of the southern Gulf of Mexico in January 2018. The Company maintains a 35% stake and is currently engaged in exploration activities.

Lucius Project

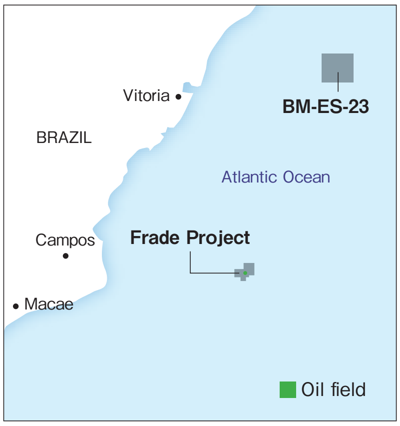



| Contract area (block) | Project status (production on the basis of all fields and average rate of FY2017) | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| Blocks 874/875/918/919 (Lucius Oil Field) | In production (Crude oil: 53 Mbbld Natural gas: 51 MMcf/d) | Teikoku Oil (North America) Co., Ltd. (May 30, 2003) | Teikoku Oil (North America) 7.75309% Anadarko* 48.95179% Other 43.29512% |
| R1.4 Block 3 (Perdido) | Under exploration | INPEX E&P Mexico, S.A. de C.V. (January 25, 2018) | INPEX E&P Mexico 33.3333% Chevron* 33.3334% Pemex 33.3333% |
| R2.4 Block 22 (Salina) | | | INPEX E&P Mexico 35% Chevron* 37.5% Pemex 27.5% |

## 3 Brazil (Frade Project and BM-ES-23)

A joint venture established by INPEX and Sojitz Corporation, Frade Japão Petróleo Limitada (FJPL) acquired an interest in the Frade Project in Brazil's offshore Northern Campos basin in July 1999. Commercial production started in June 2009. Crude oil production was temporarily suspended in March 2012 due to the presence of a small oil sheen but safely resumed at the end of April 2013.

Having also acquired a 15% interest in the BM-ES-23 concession in the Espírito Santo Basin off the southeast coast of Brazil in February 2010, the Company is advancing exploration activities together with other companies, including the operator, Petrobras. The presence of quality oil and gas deposits has been confirmed at the same concession as a result of exploratory and appraisal well drilling. Evaluation work continues.

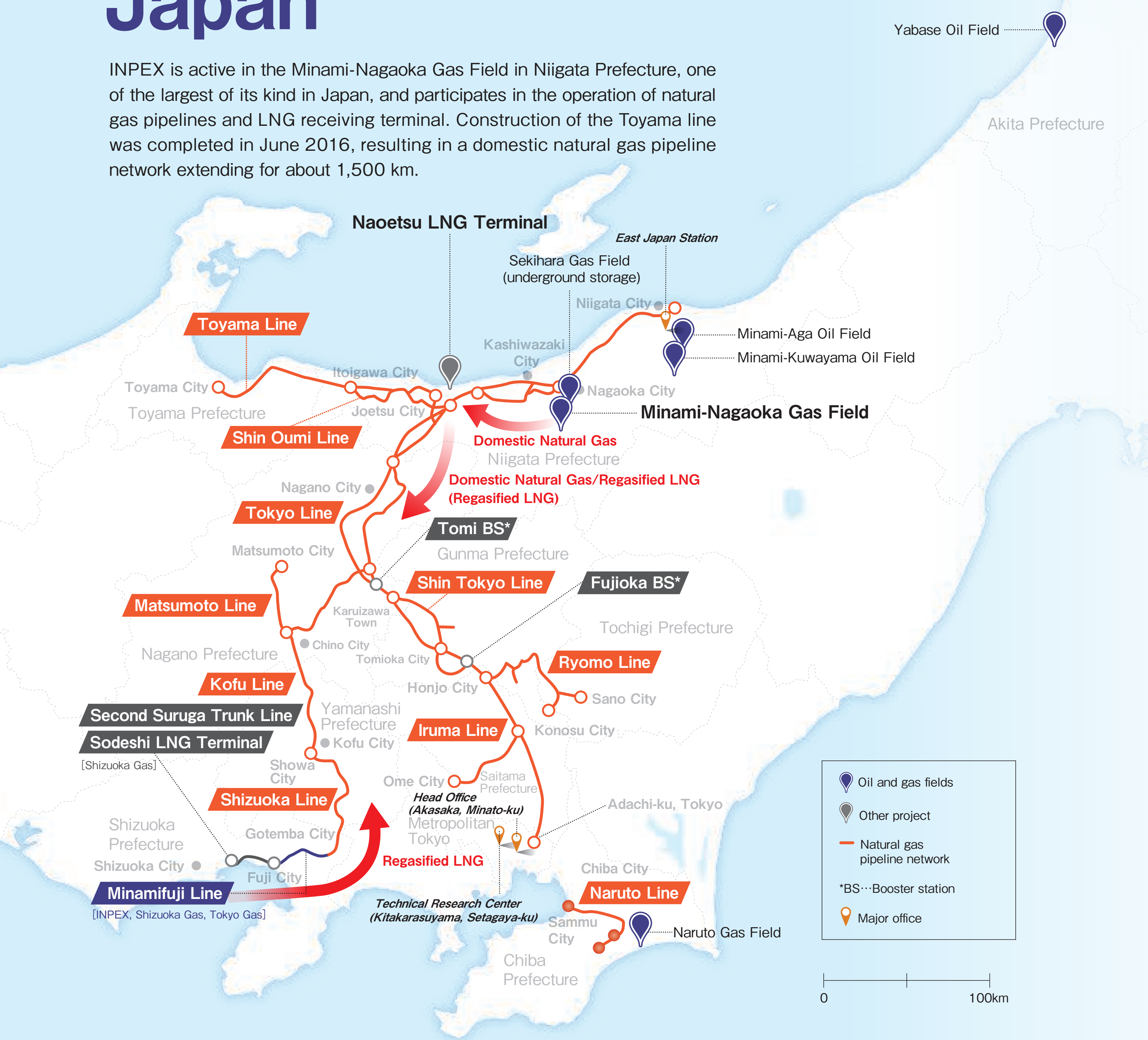



| Contract area (block) | Project status (production on the basis of all fields and average rate of FY2017) | Venture company (established) | Interest owned (*Operator) |
|---|---|---|---|
| Frade Project | In production (Crude oil: 19 Mbbld Natural gas: 1 MMcf/d) | Frade Japão Petróleo Limitada (FJPL) (July 5, 1999) | Frade Japão Petróleo 18.2609% Chevron* 51.7391% Petrobras 30.0000% |
| BM-ES-23 | Under exploration (Oil/gas reservoirs confirmed) | INPEX Petróleo Santos Ltda. (January 19, 2007) | INPEX Petróleo Santos 15% Petrobras* 65% PTTEP 20% |

## Project Overview by Region

# Japan

INPEX is active in the Minami-Nagaoka Gas Field in Niigata Prefecture, one of the largest of its kind in Japan, and participates in the operation of natural gas pipelines and LNG receiving terminal. Construction of the Toyama line was completed in June 2016, resulting in a domestic natural gas pipeline network extending for about 1,500 km.




## Natural Gas Business in Japan

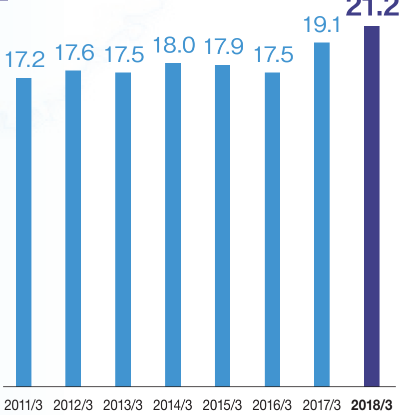
In the natural gas business in Japan, the natural gas produced from the Company-held Minami-Nagaoka Gas Field (Niigata Prefecture), as well as the LNG and other products received at the Naoetsu LNG Terminal (Niigata Prefecture), which commenced operations in December 2013, is transported through a trunk pipeline network of approximately 1,500 km stretching across the Kanto, Koshinetsu and Hokuriku regions, and sold to customers including city gas companies and large-scale plants along the aforementioned network.

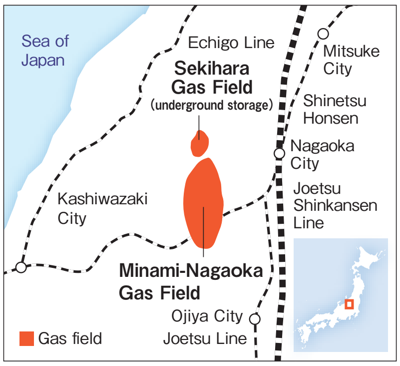
INPEX has experienced steady growth in sales of natural gas volume due to efforts to expand its supply infrastructure, as well as the highly environmentally friendly attributes of natural gas. Natural gas is expected to be used for a wide variety of applications, not only as a fuel for thermal energy but also as a fuel for onsite power generation and co-generation, as well as a fuel for natural gas electric power plants and a raw material for chemical products. INPEX is targeting annual natural gas sales of 2.5 billion m³ by fiscal 2022 and 3.0 billion m³ or more by 2040 as it uses existing infrastructure in tie-ups with other companies to ensure stable supply. INPEX remains focused on the sustainable improvement in the value of the Company's natural gas business, which plays a key role in the global gas value chains. In October 2016, the Company marked the full-scale opening of the Toyama Line, a natural gas trunk pipeline stretching from Itoigawa City, Niigata Prefecture, to Toyama City, Toyama Prefecture.

Alongside the full deregulation of the electric power market since April 2016, INPEX has responded to growing demand from gas-fired electric power plants and is engaged in the electric power wholesale business with partner Chubu Electric Power Co., Inc. Moreover, in light of the full deregulation of the gas retail market from April 2017, INPEX moved to bolster its marketing abilities by way of reorganization focused on addressing changes in the business environment, including changes in the competitive landscape in the domestic gas market. At the Naruto Gas Field in Chiba Prefecture, natural gas is being produced from water-soluble gas fields. In addition, after extracting the natural gas from underground water (brine water), the brine water is used to produce iodine, which is exported to Europe, the United States and elsewhere.

**Natural Gas Sales Volume in Japan**

(100 million Nm³/year) Note: 41.86 MJ per 1 m³





Natural gas pipeline crossing a river (Shibumi River, Niigata Prefecture)

## Renewable Energy and Other Initiatives

### Power Generation Business in Japan

In March 2013, the Company began generating electricity at INPEX Mega Solar Joetsu, a solar power plant with a maximum output of 2 MW, located on the former site of an oil refinery that it shut down in Joetsu City, Niigata Prefecture. In 2014, through cooperation between Group companies, a new 2-MW solar power plant was built next to the original site. Power generation began in July 2015. It is estimated that these two solar power plants will generate around 5,330,000 kWh annually, enough electricity to power 1,600 homes.

In addition, INPEX constructed a high-efficiency gas turbine combined cycle thermal power plant with an output of about 55,000 kW next to its Koshijihara plant in Niigata Prefecture and has been supplying electricity on a wholesale basis to power producers and suppliers (now retail electricity providers) since May 2007.

### Geothermal Development

Geothermal power is the generation of electricity with turbines powered by steam produced from the thermal energy of magma underground.

With a view toward geothermal power generation, INPEX and Idemitsu Kosan Co., Ltd., have jointly conducted geothermal surveys in the Amemasudake region of Hokkaido Prefecture and the Oyasu region of Akita Prefecture since 2011. Joined by Mitsui Oil Exploration Co., Ltd., in 2012, the companies undertook geothermal resource surveys by drilling a total of five survey wells in the Amemasudake region and six more survey wells in the Oyasu region from 2013 to 2017.In fiscal 2018, we plan to continue conducting geothermal resource surveys by drilling at one of the Amemasudake survey wells, as well as at two test production wells and one test reinjection well at the Oyasu site.

Also, as a member of the geothermal resource survey group in Fukushima Prefecture, INPEX in 2018 temporarily suspended participation in joint land survey activities in areas surrounding Mt. Bandaisan that have been taking place since 2012, but continues to make preparations for surveys of the Azuma-Adatara area.

Moreover, INPEX took steps to participate in the Sarulla Geothermal Independent Power Producer (IPP) Project in Indonesia from June 2015. The project involves constructing a world-class geothermal power plant in the Sarulla Geothermal Field located in the province of North Sumatra, and plans call for the selling of generated power to Indonesia's government- owned electricity company over a period of 30 years. Construction of the power generation plant began in 2014. Commercial operations were launched at the first unit in March 2017, at the second unit in October 2017, and at the third unit in May 2018. On a combined basis, output for the three units is 330 MW.


Sarulla Geothermal IPP Project

# Sustainability

INPEX aims to further enhance its corporate value as a company essential to society by contributing to economic growth and social development through its business operations. Fulfilling our corporate social responsibility (CSR) is a vital plank in the platform that supports our growth. Each year, we take steps to evaluate the progress of our sustainability practices and to push forward all appropriate measures from a medium- to long-term perspective.

## CSR Promotion System

We have disclosed the executive management's approach of sustainability, and established the CSR Committee, chaired by the President to promote companywide and systematic sustainability practices. The CSR Committee members include the Representative Directors, the head of the General Administration Division and the head of the Corporate Strategy & Planning Division (Vice-Chair). The Chairs of the Compliance Committee and the Corporate HSE Committee attend CSR Committee meetings to facilitate collaboration with their respective committees.

## Response to Climate Change

INPEX recognizes that climate change is a critical business issue. To achieve the long-term goals of the Paris Agreement, an economy-wide transition to a low carbon society is under way. Global climate change response requires action by all members of the international community. Governmental policy measures, technology, development, industry response and other long-term initiatives are particularly pertinent. We are committed to fulfilling our role in addressing climate change as a responsible member of the oil and natural gas industry. Furthermore, we comply with national regulations derived from the Paris Agreement of each country in which we operate, promote business and assess and appropriately manage the risks and opportunities of climate change while addressing the two societal demands of meeting energy needs including oil, natural gas, and renewable energy and reducing greenhouse gas (GHG) emissions.

In our actions toward achieving a low-carbon society, we will strengthen initiatives on promoting natural gas development and renewable energy as a means to reduce the emissions associated with INPEX's value chain. In addition, we will exercise proper management of greenhouse gases from our operations and proceed with technology development for practical application of carbon capture and storage (CCS) to capture and sequester GHG emissions. We shall also undertake analysis and initiatives in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and seek to complete disclosure of exposure to climate-related risks as well as information on climate-related opportunities. Furthermore, we have developed a position paper, "Corporate Position on Climate Change" (issued December 2015, last revised July 2018), to report our approach and initiatives on climate change.

※TCFD
Task Force on Climate-related Financial Disclosures

### Major Milestones in the Management Strategy for Addressing Climate Change

| | |
|---|---|
| 2015 | ● Published a position paper, "Corporate Position on Climate Change" |
| 2016 | ● Established a Climate Change Strategy Project Team as a unit within the Corporate Strategy and Planning Division |
| 2017 | ● Set internal carbon price for economical evaluation<br>● Established scenarios for a low-carbon society |
| 2018 | ● Announced Vision 2040, which has the renewable energy business occupying 10% of our project portfolio by 2040<br>● Established a group to promote actions against climate change within the Corporate Strategy and Planning Division<br>● Established the Renewable Energy & Power Business Division |

## Identification of Material CSR issues and Prioritization process

As a global energy company, in 2012 INPEX identified the Material CSR Issues that we must tackle as important issues on a priority basis through our business activities based on the INPEX Group Business Principles. This action has served as a means of achieving sustainable growth together with society throughout the future based on the trust of all stakeholders. In 2015, we reviewed the overall initiatives conducted over the three-year period for each of the five Material CSR Issues identified three years earlier. At the same time, we reexamined the Material CSR Issues in light of such factors as events that affect our business activities accompanying progress in our main projects and changes in the concerns of shareholders. We reidentified our Material CSR Issues and added "Governance" as a sixth area of concern.

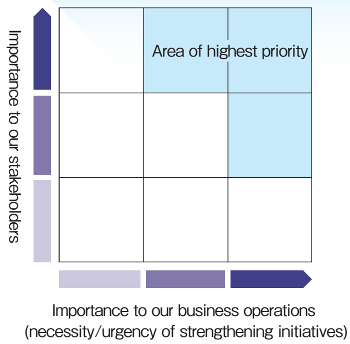
In addition, INPEX has identified the Material Issues that we must tackle on a priority basis for each theme through a four-step Key Task identification process ([1] Issue identification, [2] stakeholder dialogue, [3] Issue prioritization, [4] management review) and is taking action through a PDCA cycle so that improvements are made on an ongoing basis. In fiscal 2017, we incorporated the perspectives from the Sustainable Development Goals (SDGs)* and are now conducting a review of the important issues.

*Sustainable Development Goals (SDGs)
Seventeen goals and 169 targets adopted by the UN Sustainable Development Summit in September 2015 that describe the United Nations' agenda for people, planet and prosperity.

### Identification of Material Issues

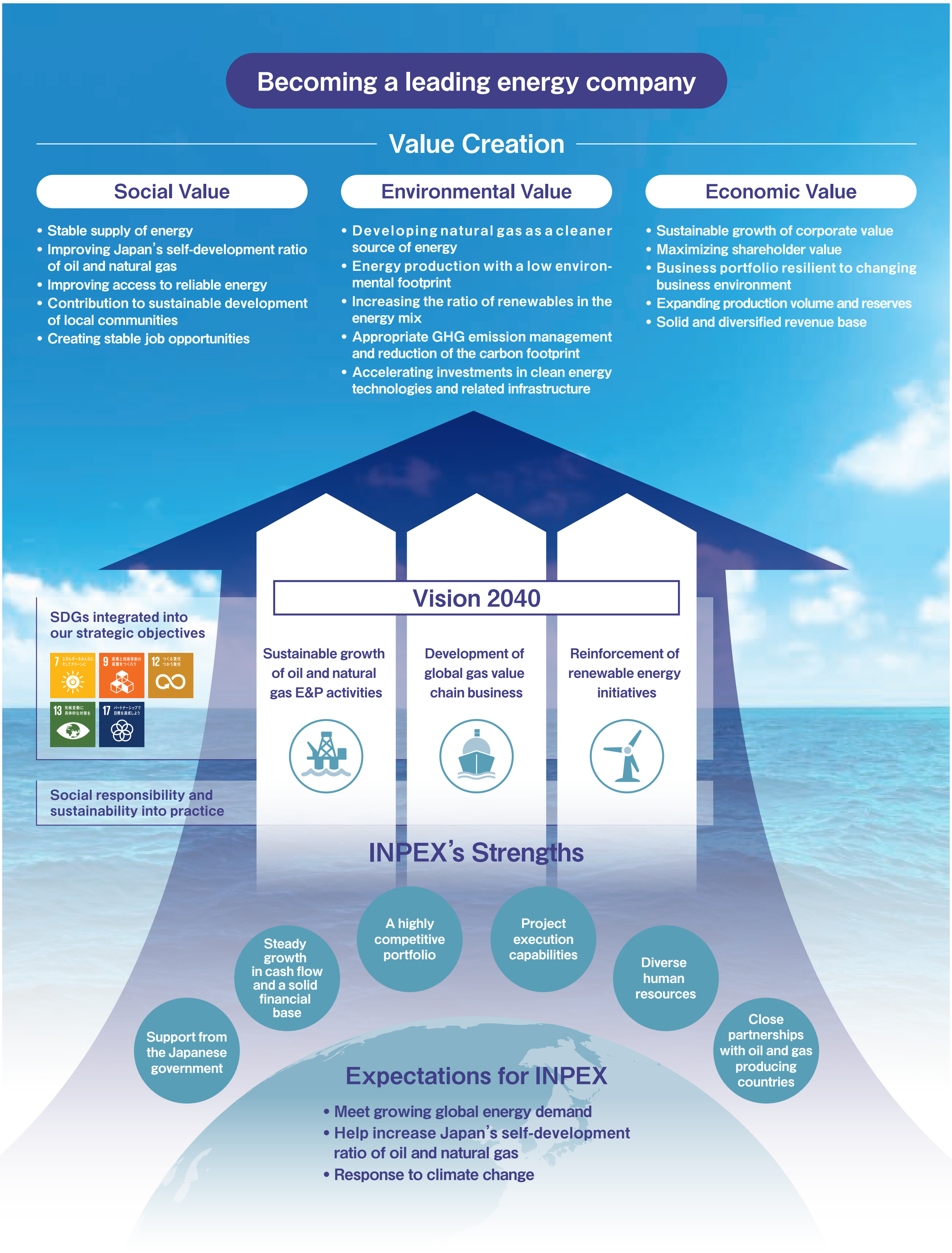

### INPEX Key Tasks

- Strengthen the governance structure
- Upgrade the risk management system
- Respect for human rights
- Legal compliance, prevention of bribery and corruption
- Conducting Environmental and Social Impact Assessment (ESIA) in the supply chain
- Prevention of major incidents
- Securing occupational health and safety
- Conservation of biodiversity, appropriate water resource management
- Conducting assessments and measures to reduce the impact on local and indigenous communities
- Contribution to local economies
- Promotion of renewable energy
- Development of natural gas as a cleaner source of energy
- Strengthen climate-change-related risk management
- Human resource development and improvement of job satisfaction
- Promotion of diversity



## INPEX Value Creation

Our goal is to become a leading energy company serving an essential role in society by fulfilling our mission to deliver energy in a sustainable way. Through our effort to achieve the three strategic targets in the Vision 2040, we will create and share value with stakeholders for sustainable growth.



# Sustainability

## Targets and Results of Material Issues

| Identification of material issues | Key tasks | | FY2018 results |
|---|---|---|---|
| Governance | Strengthen the governance structure | | ● Improved the diversity of the Board of Directors by increasing the number of outside directors and appointing a female director<br>● Medium- to long-term corporate strategic management discussion held at the Board of Directors to support the development of Vision 2040 and the Medium-term Business Plan 2018-2022<br>● Conducted an evaluation of the Board of Directors as a whole and improved the operation of board meetings based on the evaluation results<br>● Convened meetings of the Nomination and Compensation Advisory Committee (held 4 times) |
| | Upgrade the risk management system | | ● Engaged in headquarters Business Continuity Management[1] (BCM) activities for earthquakes (convening of the BCM Headquarters Promotion Committee) and provided education and training to employees |
| Compliance | Respect for human rights | | ● Issued a FY2016 disclosure statement in response to the UK Modern Slavery Act 2016 Statement<br>● Strengthened human rights management, including the introduction of a human rights policy<br>● Conducted training on human rights management (98% attendance) |
| | Legal compliance, prevention of bribery and corruption | | ● Conducted compliance training by work theme and level<br>● Conducted an ABC risk assessment at one overseas office<br>● Conducted ABC-related training (e-learning)<br>● Engaged in global compliance activities through cooperation with the departments in charge of compliance at the Jakarta and Perth offices |
| | Conducting Environmental and Social Impact Assessment (ESIA) in the supply chain | | ● Participated in the Supply Chain Working Group of Global Compact Network Japan and contributed to preparation of a cross-industry supplier self-evaluation questionnaire<br>● Conducted risk assessments of major domestic service and construction contractor candidates (26 ABC due diligence risk assessments)<br>● Incorporated ABC clauses and clauses on compliance with the INPEX Code of Conduct into all service and construction work agreements with domestic suppliers<br>● Conducted risk assessments of major service and construction contractor candidates in Australia and Indonesia (ABC due diligence risk assessments, HSE assessments) |
| HSE | Prevention of major incidents | | ● Revised five corporate HSE Standards; introduced e-learning system for HSE education; discussed HSE management for non-operator projects<br>● Conducted risk management-based corporate HSE audit at three operational organizations; participated in 15 HSE reviews responding to requests from the site<br>● Reported HSE risks to the quarterly Management Committee; assisted preparation of a safety case for the oil terminal Naoetsu, Gas Guarico and gas pipelines<br>● Conducted emergency response exercises for gas pipeline damage and gas leaks due to natural disaster; Ichthys LNG Project oil spills and a Tokyo inland earthquake |
| | Securing occupational health and safety | | ● Assisted preparation of more than 17 safety cases for operator projects shared lessons for contractor HSE management at HSE Forum; conducted eight management site visits<br>● Built a system to share lessons learned from incidents; introduced global incident reporting software<br>● Incident reduction result: LTIF 0.28 / TRIR 1.74 |
| | Environmental management (Conservation of biodiversity, appropriate water resource management) | | ● Began the Environmental Management Working Group quarterly discussions over companywide environmental concerns; completed surveys on water and biodiversity |
| Local Communities | Conducting assessments and measures to reduce the impact on local and indigenous communities | Japan | ● Provided information on operating status and safety initiatives through community briefings and issuance of newsletters at the Naoetsu LNG Terminal |
| | | Australia | ● Held approximately 300 stakeholder engagement activities<br>● Adequately addressed community concerns (accounting for 3% of all inquiries received)<br>● Held six meetings with INPEX Larrakia Advisory Committee |
| | Contribution to local economies | Global | ● Actual social investment was ¥1.41 billion |
| | | Australia | ● Retained INPEX Australia's 1% Aboriginal and Torres Strait Islander employees |
| | | Ichthys LNG Project | ● Framework is being established for a midterm social contribution strategy and evaluations of social contribution effects<br>● "Target-setting deliberations in progress" for direct employment of Aboriginal and Torres Strait Islander workers in the project operations phase<br>● Contracted 62 Aboriginal and Torres Strait Islander owned businesses at a value greater than A$157 million during the onshore construction phase since its commencement |
| Climate Change | Promotion of renewable energy | | ● Ensured stable operation of solar power generation facilities<br>● Started commercial operation of Unit 2 at the Sarulla Geothermal IPP Project in Indonesia, cleared a path for commercial operation of Unit 3<br>● Geothermal plant in the Oyasu region in Akita Prefecture moved to the next-period survey phase; continued drilling surveys and short-term fumarolic testing in the Amemasudake region of Hokkaido<br>● Set a clear path for the start-up of a domestic wind power business<br>● Promoted R&D for construction of a renewable energy value chain, including artificial photosynthesis |
| | Development of natural gas as a cleaner source of energy | | ● Achieved the stable supply of natural gas through safe operation of domestic gas fields, the Naoetsu LNG Terminal and a 1,500-km network of pipelines; increased volume of gas supplied by 11.2% versus fiscal 2016<br>● Proactively promoted natural gas to potential buyers along the domestic gas pipeline |
| | Strengthen climate-change-related risk management | | ● Introduced and started administering internal carbon pricing in October 2017<br>● Established four scenarios for a low-carbon society including a 2°C scenario<br>● Held a climate change risk assessment workshop in December 2017 |
| Employees | Human resource development and improvement of job satisfaction | | ● Internal sharing of INPEX values case studies: Posted a handbook and case studies on the company intranet and initiated the "Value Awards" award system to encourage employees to provide case studies of excellence in practicing INPEX values<br>● Introduced an internal recruiting system and a career consultation system for corporate employees<br>● Reduced overtime work and improved the proportion of paid leave taken by introducing a staggered work hours system and a promotion to take paid leave |
| | Promotion of diversity | | ● Conducted training for managers and supervisors who oversee the work of employees at child-raising age<br>● Conducted LGBT training<br>● Proactively hired women, foreign nationals and persons with disabilities |

1. Business Continuity Management
A proactive plan outlining the priority operations and steps to be taken in the event of a disaster to avoid or mitigate the risk of interruption to business activities.
2. Business Continuity Plan
The activities undertaken by a company to develop and maintain a business continuity framework and ensure overall preparedness by the Company through education and training initiatives.

## FY2019 targets

Meeting between outside directors and Audit & Supervisory Board members

- Continue initiatives to improve corporate governance, including in response to the revision of the Corporate Governance Code (e.g., introduce an executive officer stock compensation plan overseen by the Nomination and Compensation Advisory Committee)
- Monitor the status of the Medium-term Business Plan 2018-2022
- Continue initiatives for the implementation of evaluations and improvements for the Board of Directors as a whole (PDCA cycle)

- Conduct Tokyo Office-based BCM activities for earthquake scenarios, provide BCM education and training to employees, and review the Tokyo office BCP[2] for highly virulent infectious disease scenarios

Employee training

- Strengthen initiatives to improve human rights management
- Issue a FY2017 disclosure statement in response to the UK Modern Slavery Act 2017 Statement
- Continue human rights management training for new recruits and mid-career employees
- Implementation of human rights risk assessment for the supply chain

- Conduct compliance training by work theme and level
- Continue ABC-related risk assessments at overseas offices
- Widely disseminate and strengthen implementation of ABC regulations (through training and other means)
- Enhance global compliance systems

- Continue to participate in the Supply Chain Working Group of Global Compact Network Japan
- Administer a cross-industry supplier self-evaluation questionnaire to major domestic suppliers and contractors
- Continue risk assessment of major domestic suppliers and contractors

Management site visit to the Sarulla Geothermal Power Station

- Strengthen the HSE Management System (continuous improvement of HSE standards; establishment of the HSE management manual of non-operator projects)
- Enhance HSE assurance and governance (improve the consistency and effectiveness of the HSEMS through HSE reviews and audits; execution of the HSE First policy)
- Strengthen the HSE risk management process to prevent major incidents (promote safety case document creation and barrier management at major facilities; application of Process Safety leading KPIs)
- Enhance emergency and crisis preparedness (Practical exercises for a Tokyo inland earthquake, the Ichthys LNG Project and the Naoetsu LNG Terminal)

- Provide HSE technical support and strengthen HSE management at worksites (expansion of the support scope; site visit exchanges by site representatives; deepen mutual understanding with site workers)
- Incident reduction (Target: LTIF[3] 0.12/TRIR[4] 0.70 or less; zero incidents of Process Safety KPI Tiers 1 and 2; stringent safety controls for works at heights or in confined space)

- Strengthen environmental management and climate change risk management (GHG emission controls; plans for biodiversity, water and companywide environmental KPIs)

An instructor at a youth center supported by the Company

- Maintain good relationships with stakeholders through continuous dialogue including community briefings and issuance of newsletters

- Continue to manage the impact on and concerns of local communities and stakeholders as the Ichthys LNG Project transitions from construction to operations phase

- Social investment plan: ¥1.61 billion

- Finalize and implement a midterm community investment strategy and outcomes measurement of key community investments
- Increase Aboriginal and Torres Strait Islander recruitment and retention (direct and indirect)
- Increase Aboriginal and Torres Strait Islander supply diversity

The second and third units at the Sarulla Geothermal Independent Power Producer (IPP) Project

- Ensure stable operation of solar power generation facilities
- Start commercial operation of Unit 3 of the Sarulla Geothermal IPP Project in Indonesia, achieve stable operations of the power plant as a whole
- Promote the existing geothermal power generation business in Japan
- Pursue new geothermal and wind power business
- Promote various forms of R&D toward the building of a renewable energy value chain

- Continue a stable supply of natural gas through the safe operation of domestic gas fields, the Naoetsu LNG Terminal and the approximately 1,500-km gas pipeline network; increase supply volume
- Engage in activities to promote natural gas use

- Erect a framework for assessing the risks and opportunities related to climate change
- Construct a process for evaluating the financial effects of our ability to respond to the 2°C scenario
- Construct a process for estimating the volume of methane leaks

Recipient of the 2017 INPEX Value Award

- Take measures to instill INPEX Values and continue the Value Awards (including Group companies)
- Continue the internal recruiting system and the career consultation system for corporate employees
- Reduce overtime work and continue measures to improve the proportion of paid leave taken

- Implement a revised employer action plan in accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace
- Continue to promote diversity (hiring of women, foreign nationals and persons with disabilities)

3. Lost Time Injury Frequency
Rate of injury resulting in fatalities or lost time per million hours worked
4. Total Recordable Injury Rate
Rate of total fatalities, lost work day cases, restricted work day cases and medical treatment cases per million hours worked

# Corporate Governance

(As of June 27, 2018)

To achieve sustainable growth and increase corporate value over the medium to long term, the Company fulfills its social responsibilities in cooperation with its shareholders and other stakeholders and works to enhance its corporate governance for the purpose of conducting transparent, fair, timely and decisive decision making.

## Overview of the Corporate Governance Structure

INPEX has adopted an Audit & Supervisory Board Member organizational structure, under which Audit & Supervisory Board members audit the execution of operations, which are in turn carried out by directors well versed in their field. In addition, the Company has introduced an Executive Officer System to pursue management with agility and efficiency. INPEX frequently engages in negotiations with the governments of oil-producing countries and overseas oil companies. This necessarily requires internal directors and executive officers who have knowledge, expertise and international experience relating to the Company's business and both a sound knowledge of the Company and their particular field of expertise. Internal directors, in principle, hold the concurrent position of executive officers. By adopting this concurrent organizational structure, the Company's Board of Directors is better placed to execute operations in an efficient manner. At the same time, this structure helps to ensure effective operating oversight.

In addition to enhancing the transparency of management and bolstering the ability of the Board of Directors to carry out its supervisory function, INPEX has appointed six of its 15-member Board of Directors from outside the Company. Through this initiative, steps have been taken to ensure that management issues are considered and deliberated with a greater degree of objectivity from an independent standpoint. Moreover, three of the Company's four Audit & Supervisory Board members are also appointed from external sources. In addition to putting in place an Audit & Supervisory Board, INPEX has set up the Audit & Supervisory Board Members' Office and deployed dedicated staff and is reinforcing collaboration between Audit & Supervisory Board members and the Audit Unit, as well as independent auditors.

### Overview of the Corporate Governance Structure

**Organizational structure**
Company with Audit & Supervisory Board Members

**Directors**

| | |
|---|---|
| Number of directors as stipulated by the Articles of Incorporation | up to 16 |
| Number of directors (number of outside directors) | 15 (6) |
| Term of office | 1 year |

**Audit & Supervisory Board members**

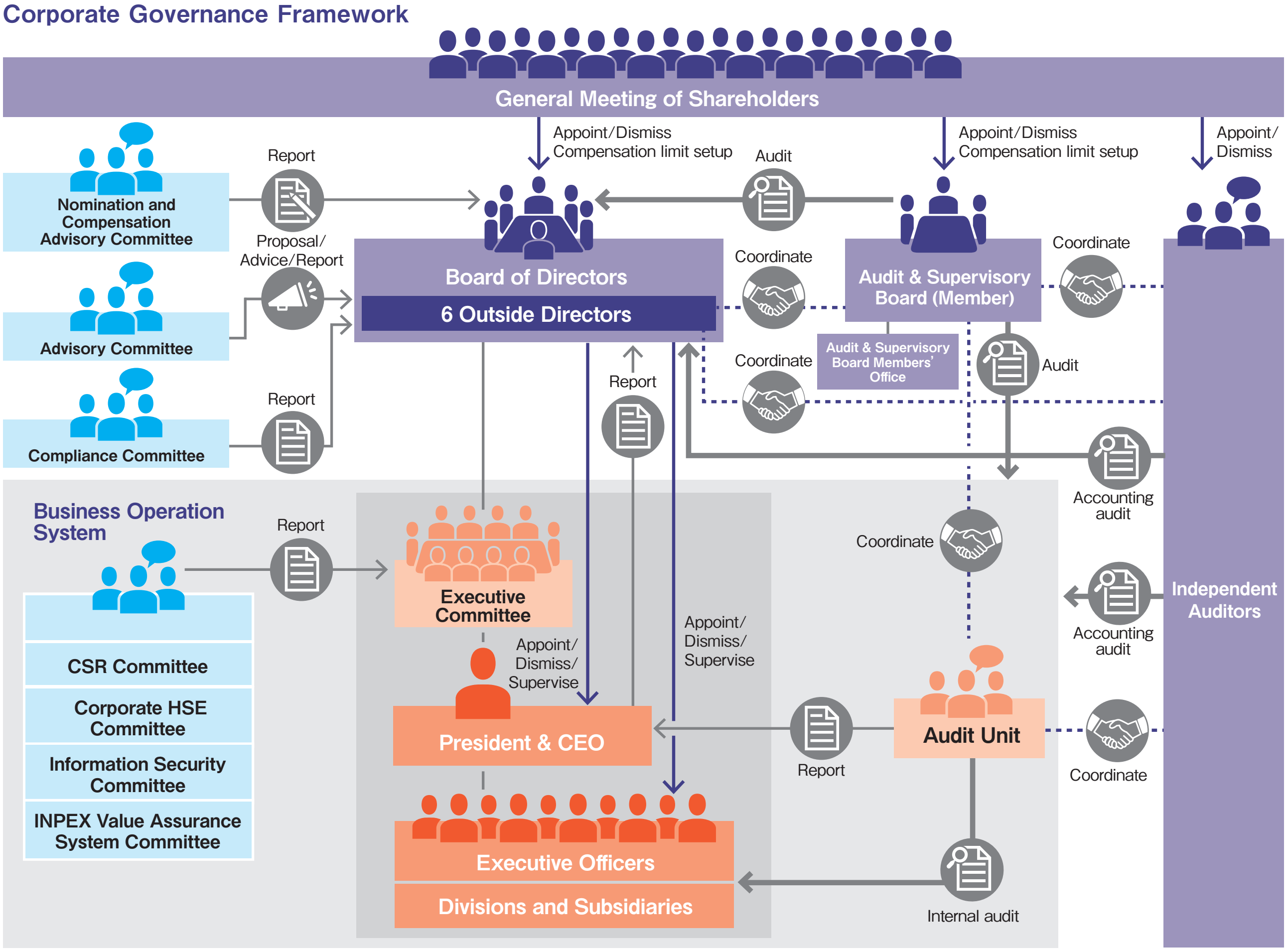
| | |
|---|---|
| Number of Audit & Supervisory Board members as stipulated by the Articles of Incorporation | up to 5 |
| Number of Audit & Supervisory Board members (number of outside Audit & Supervisory Board members) | 4 (3) |
| Term of office | 4 years |

**Number of independent directors and auditors** ······ 9
(6 outside directors, 3 outside Audit & Supervisory Board members)

**Rights plan and other measures to protect against a takeover** ······ None

**Other**
Issuance of a Class A Stock to the Minister of Economy, Trade and Industry

### Corporate Governance Framework



## 1 Directors and the Board of Directors

The responsibilities of the Board of Directors shall be to fully exercise its supervisory function, secure fairness and transparency in management, and ensure sustainable growth and increase corporate value over the medium to long term through implementation of effective corporate governance, with recognition of its fiduciary responsibility to shareholders.

The Company's Board of Directors comprises 15 members, six of whom are outside directors. In addition to a monthly meeting, the Board of Directors meets as necessary to discuss and determine matters concerning management strategy and important business execution, and to supervise the execution of duties by directors. The term of office for directors is set at one year. In addition to enhancing the ability of directors to respond to changes in the Company's global operating environment in a timely manner, this initiative helps to further clarify management responsibilities.

## 2 Executive Committee and Executive Officer System

From the perspective of increasing the speed of decision making related to the execution of business, we have established an Executive Committee. Meetings are held weekly and as necessary. At the Executive Committee, flexible decision making is conducted for resolutions not affiliated with the Board of Directors, and deliberation is held to contribute to decision making by the Board of Directors.

We implemented an Executive Officer System to respond accurately and quickly to a rapidly changing management environment and the expansion of our business activities. The term of office for executive officers is set to one year, the same as for directors.

## 3 Formulation of Corporate Governance Guidelines

The mission of the Company is to contribute to the creation of a brighter future for society through our efforts to develop, produce and deliver energy in a sustainable way. Through our business, we aim to become an integrated energy company that contributes to the community and makes it more livable and prosperous. Based on this mission, to achieve sustainable growth and increase corporate value over the medium to long term, the Company fulfills its social responsibilities in cooperation with its shareholders and other stakeholders, and works to enhance its corporate governance for the purpose of conducting transparent, fair, timely and decisive decision making.

In November 2015, the INPEX Group made clear its basic views and policies on corporate governance and, with the aim of ensuring transparency and fairness in the Company's decision making, as well as realizing effective corporate governance by carrying out the proactive dissemination of information, formulated its Corporate Governance Guidelines. Please refer to our Web site for details.

▶ www.inpex.co.jp/english/company/governance.html

## 4 Class A Stock

According to the stipulations of the Articles of Incorporation, INPEX issues a Class A Stock to the Minister of Economy, Trade and Industry. The Class A Stock does not possess voting rights at shareholders' meetings. However, it is possible for the holder of the Class A Stock to exercise veto rights for certain major corporate decisions. We think the holding of Class A Stock by the Minister of Economy, Trade and Industry will help prevent any incidence of unusual management, allow INPEX to stably supply energy as a core company for Japan's oil & gas E&P and ensure that the Company does not incur any negative impact from a speculative acquisition or an attempt at management control through foreign capital. On this basis, INPEX's role is assured. Furthermore, we expect positive results in terms of external negotiation and credits as a national flagship company efficiently contributing to the stable supply of energy in Japan.

▶ See p. 90–91 for Business Risks (8. Class A Stock)

## 5 Director Compensation

In the business of developing oil and natural gas, a considerable amount of time is required between the launch of a business venture and any investment recovery. Accordingly, INPEX does not consider it appropriate to reflect short-term performance in directors' compensation. Compensation for directors consists of monthly compensation (basic compensation), which is paid based on the duties of each director, and a bonus based on the Company's performance. Compensation is determined by the Board of Directors. Compensation paid to Audit & Supervisory Board members consists solely of a fixed monthly compensation, which is determined through consultation between the Audit & Supervisory Board members.

Meanwhile, the Company resolved to introduce a stock-based remuneration system for Directors of the Company (excluding Outside Directors and non-residents of Japan) with the aim of increasing the incentive for Directors to contribute to the medium- to long-term improvement of the corporate value of the Company by making clear the link between the remuneration of Directors and the Company's stock price at the Company's 12th Ordinary Meeting of Shareholders held on June 26, 2018.

## 6 Accounting Audit and Auditor Compensation

In accordance with the Companies Act and the Financial Instruments and Exchange Act, we accept accounting audits from Ernst & Young ShinNihon LLC. The amount of auditor compensation is determined in total based on the audit plan and the number of auditing dates, after obtaining approval from the Audit & Supervisory Board.

### Compensation Paid to the CPAs and Related Parties

(Fiscal year ended March 31, 2018)

| | |
|---|---|
| Name of the CPA firm | Ernst & Young ShinNihon LLC |
| Names of the CPAs | Hiroaki Kosugi, Toru Kimura, Takeshi Yoshida |
| Accounting audit members | 25 CPAs and 47 others |
| Compensation for auditing services | ¥263 million (INPEX: ¥190 million; Consolidated subsidiaries: ¥73 million) |
| Compensation for non-auditing services | ¥12 million (INPEX: ¥ 1 million; Consolidated subsidiaries: ¥11 million) |

# Monitoring of Management by Outside Directors and Audit & Supervisory Board Members

## 1 Outside Directors

Regarding the appointment of outside directors, we believe that it is important to comprehensively consider a variety of factors. These factors include the validity of business decisions and consideration of their efficacy, professionalism and objectiveness in the oversight function in addition to the perspective of independence.

As corporate managers, academics or other specialists, our Company's six outside directors possess broad knowledge and many years of experience as managers in such fields as the resource/energy industry, finance and legal matters. Also, three of the outside directors are shareholders of the Company and serve as advisors of companies that conduct business in the same field. Therefore, we recognize the importance of paying special attention to the possibility of competition and other conflicts of interest. In response, we collect written pledges from outside directors to ensure conformance with the Companies Act when taking a proper response toward noncompetition, the prevention of information leakage and the implementation of appropriate measures toward transactions with a conflict of interest. These written pledges are the same as those submitted by internal appointees.

## 2 Outside Audit & Supervisory Board Members

When appointing outside Audit & Supervisory Board members, we believe that it is important to comprehensively consider factors such as independence, efficacy in the oversight function and professionalism. Three of the Company's four Audit & Supervisory Board members are appointed from external sources. Audit & Supervisory Board members possess a rich knowledge and experience in the Company's business as well as in such fields as finance and accounting, which they use when performing auditing activities for the Company.

## 3 Independence of Outside Directors and Outside Audit & Supervisory Board Members

The Company has reported all outside directors and outside Audit & Supervisory Board members as independent directors as defined by Tokyo Stock Exchange, Inc.

As a part of efforts to comply with the Corporate Governance Code, INPEX has formulated independence standards for outside directors and outside Audit & Supervisory Board members taking into consideration the independence standards and qualification for independent directors issued by the Tokyo Stock Exchange. The Company determines the independence of outside directors, including major shareholders and business partners that do not fall within the scope of these standards.

## 4 Audit & Supervisory Board and Audit & Supervisory Board Members

INPEX has adopted an Audit & Supervisory Board Members system. The Audit & Supervisory Board is composed of four Audit & Supervisory Board members, three of which come from outside.

In addition to attending meetings of the Board of Directors and the Executive Committee, the Audit & Supervisory Board members review the execution of business duties by directors and executive officers through reports given by and hearings for related departments. Furthermore, the Audit & Supervisory Board members meet on regular and as needed bases with the Independent Auditors, and receive reports from the Independent Auditors regarding audits. They also conduct regular meetings with the internal audit department (Audit Unit) to receive reports regarding internal audits and the evaluation of internal controls.

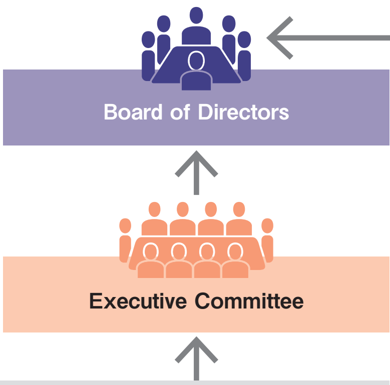
To strengthen the auditing function and ensure viable corporate governance, steps have been taken to set up the Audit & Supervisory Board Members' Office and to deploy dedicated staff. In this manner, efforts are being made to promote collaboration along the aforementioned terms between Audit & Supervisory Board members, the Audit Unit and the Independent Auditors. Moreover, we have constructed a system to strengthen the monitoring function through periodic meetings with representative directors and directors.

### Outside Directors/Outside Audit & Supervisory Board Members: Concurrently Held Positions and Reason for Appointment

| | Name | Independent director/auditors | Significant concurrently held positions | Reason for appointment | Attendance at board meetings for the fiscal year ended March 31, 2018 |
|---|---|---|---|---|---|
| Outside directors | Yasuhiko Okada | ✓ | Senior Partner of Kitahama Partners (Tokyo Office) | Possesses extensive experience and knowledge in finance, as well as professional knowledge and experience as an attorney, in addition to management experience in financial institutions | Board of Directors meetings 16/16 |
| | Hiroshi Sato | ✓ | Advisor of Japan Petroleum Exploration Co., Ltd. (JAPEX) | To utilize in our company's management his rich experience and broad knowledge in the oil and gas development industry | Board of Directors meetings 16/16 |
| | Isao Matsushita | ✓ | Senior Executive Advisor of JXTG Holdings, Inc. | To utilize in our company's management his rich experience and broad knowledge as a business executive | Board of Directors meetings 16/16 |
| | Jun Yanai | ✓ | Advisor of Mitsubishi Corporation | To utilize in our company's management his rich experience and broad knowledge in the resources/energy industry | Board of Directors meetings 16/16 |
| | Norinao Iio | ✓ | – | To utilize in our company's management his rich experience and broad knowledge in the resources/energy industry | Board of Directors meetings 13/13 |
| | Atsuko Nishimura | ✓ | Outside Director of Taisei Corporation | To utilize in our company's management her extensive knowledge of international affairs created through her abundant experience as a diplomat as well as her insight into the resources and energy business | Board of Directors meetings 13/13 |
| Outside Audit & Supervisory Board members | Hideyuki Toyama | ✓ | – | Possesses extensive experience and knowledge in finance, as well as professional knowledge and experience as an attorney | Board of Directors meetings 16/16<br>Audit & Supervisory Board meetings 15/15 |
| | Koji Sumiya | ✓ | – | Possesses extensive experience and knowledge in financial matters | Board of Directors meetings 16/16<br>Audit & Supervisory Board meetings 15/15 |
| | Masaru Funai | ✓ | – | To utilize in our company's auditing procedures his rich experience in the energy industry, as well as his knowledge in financial and accounting matters, in addition to accounting experience | Board of Directors meetings 16/16<br>Audit & Supervisory Board meetings 15/15 |

# Internal Committees

To further enhance the efficacy of the corporate governance function, INPEX has set up ❶ the Nomination and Compensation Advisory Committee, ❷ the Advisory Committee, ❸ the Compliance Committee and ❹ the CSR Committee. In addition, the Company maintains ❺ the Corporate HSE Committee, ❻ the Information Security Committee and ❼ the INPEX Value Assurance System Committee to appropriately manage risks associated with business operations.




### ❶ Nomination and Compensation Advisory Committee

The Nomination and Compensation Advisory Committee was established in January 2017 with the aim of strengthening the functional independence and objectivity as well as accountability of the Board of Directors in connection with the nomination of and compensation paid to directors.

### ❷ Advisory Committee

The Advisory Committee was established in October 2012 with the aim of enhancing corporate value and the corporate governance function. Comprising external experts in a broad spectrum of fields, the committee provides the Board of Directors with multifaceted and objective advice and recommendations across a wide range of areas. Areas of discussion and advice include international political and economic conditions, an outlook of energy conditions and ways in which to bolster corporate governance.

### ❸ Compliance Committee

The Compliance Committee was established in April 2006 with the aim of promoting compliance initiatives across the entire Group. The committee formulates fundamental compliance policies applicable to the Group, deliberates on important matters and manages the manner in which compliance is practiced.

### ❹ CSR Committee

In April 2012, the INPEX Group established the CSR Committee with the aims of better fulfilling its corporate social responsibility and promoting activities that contribute to the sustainable development of society. The committee puts in place fundamental policies and formulates important measures designed to promote CSR.

### ❺ Corporate HSE Committee

In accordance with the HSE Management System, the Corporate HSE Committee was established in October 2007 to promote health, safety and environment initiatives. In addition to formulating corporate HSE policies and priority targets for each period, the committee advances HSE activities across the organization.

### ❻ Information Security Committee

The Information Security Committee was established in November 2007 to consider and determine all appropriate measures necessary to maintain, manage and strengthen information security. The committee also takes steps to address any incident relating to information security and to put in place preventive measures.

### ❼ INPEX Value Assurance System Committee

The INPEX Value Assurance System Committee was established in May 2014 to contribute to the Company's decision-making process with respect to confirmation of the status of preparations in connection with important milestones of those oil and natural gas upstream business projects in which INPEX participates, and the improvement and promotion of project value.

# Information Disclosure and Activities for the Benefit of Shareholders and Investors

INPEX undertakes the early delivery of convocation notices for its general meeting of shareholders to ensure that shareholders have sufficient time to consider agenda items at each Ordinary General Meeting of Shareholders. The Convocation Notice for INPEX's 12th Ordinary General Meeting of Shareholders held in June 2018 was posted on the Company's Web site more than three weeks prior to the meeting on May 28, 2018. The Convocation Notice itself was dispatched on June 4, 2018.

To facilitate the exercise of voting rights, INPEX implemented the exercise of voting rights via the Internet. The Company also adopted a platform for the electronic use of voting rights while posting copies of the convocation notice and other related documents, both in Japanese and English, on its Web site and TDnet (Timely Disclosure network).

Turning to the Company's IR activities, INPEX participates in events such as IR fairs for individual investors and meetings in a variety of venues including the branch offices of securities firms. More than 10 information meetings for individual investors are generally held each year. Video archives of certain meetings are also made available on the Company's Web site. INPEX holds biannual meetings on its financial results for analysts and institutional investors. Video archives of these financial results presentations are provided on the Company's IR Web site together with a simultaneous interpretation in English. In general, INPEX undertakes overseas IR road shows covering such regions as Europe, North America and Asia. Furthermore, INPEX strives to participate in conferences attended by domestic and overseas investors while engaging in one-on-one meetings.

The Company's Web site (IR section: www.inpex.co.jp/english/ir/) features a host of IR tools including financial reports, financial results presentations and annual reports. Together with recent news releases, every effort is made to disclose pertinent information on the Company's performance and financial position, as well as trends in crude oil prices, foreign currency exchange rates, the Company's share price and stock information.


IR fair in August 2017

# Directors, Audit Supervisory Board Members and Executive Officers

(As of June 27, 2018)

**Toshiaki Kitamura**

Representative Director, Chairman

Years of service as Director: 8 years, Number of shares owned: 35,500 shares

**Takayuki Ueda**

Representative Director, President & CEO

Years of service as Director: - years, Number of shares owned: 2,000 shares

**Masahiro Murayama**

Director, Senior Managing Executive Officer

Years of service as Director: 9 years, Number of shares owned: 26,100 shares

**Seiya Ito**

Director, Senior Managing Executive Officer

Years of service as Director: 12 years, Number of shares owned: 22,000 shares

**Takahiko Ikeda**

Director, Senior Managing Executive Officer

Years of service as Director: 9 years, Number of shares owned: 28,900 shares

**Shunichiro Sugaya**

Director, Managing Executive Officer

Years of service as Director: 9 years, Number of shares owned: 22,600 shares

**Yoshikazu Kurasawa**

Director, Managing Executive Officer

Years of service as Director: 6 years, Number of shares owned: 19,800 shares

**Kimihisa Kittaka**

Director, Managing Executive Officer

Years of service as Director: 2 years, Number of shares owned: 8,200 shares

**Nobuharu Sase**

Director, Managing Executive Officer

Years of service as Director: 2 years, Number of shares owned: 26,700 shares

**Yasuhiko Okada**
Director (Outside)
Years of service as Director: 6 years,
Number of shares owned: - share

**Hiroshi Sato**
Director (Outside)
Years of service as Director: 3 years,
Number of shares owned: - share

**Isao Matsushita**
Director (Outside)
Years of service as Director: 2 years,
Number of shares owned: - share

**Jun Yanai**
Director (Outside)
Years of service as Director: 2 years,
Number of shares owned: - share

**Norinao Iio**
Director (Outside)
Years of service as Director: 1 year,
Number of shares owned: - share

**Atsuko Nishimura**
Director (Outside)
Years of service as Director: 1 year,
Number of shares owned: - share

**Kazuo Yamamoto**
Audit & Supervisory Board Member
Years of service as Audit & Supervisory Board Member: 3 years,
Number of shares owned: 9,000 shares

**Hideyuki Toyama**
Audit & Supervisory Board Member (Outside)
Years of service as Audit & Supervisory Board Member: 3 years,
Number of shares owned: - share

**Koji Sumiya**
Audit & Supervisory Board Member (Outside)
Years of service as Audit & Supervisory Board Member: 8 years,
Number of shares owned: 7,600 shares

**Masaru Funai**
Audit & Supervisory Board Member (Outside)
Years of service as Audit & Supervisory Board Member: 8 years,
Number of shares owned: - share

## Directors and Audit & Supervisory Board Members

| | | |
|---|---|---|
| Representative Director, Chairman | Toshiaki Kitamura | |
| Representative Director, President & CEO | Takayuki Ueda | (1) |
| Director | Masahiro Murayama | (1) |
| Director | Seiya Ito | (1) |
| Director | Takahiko Ikeda | (1) |
| Director | Shunichiro Sugaya | (1) |
| Director | Yoshikazu Kurasawa | (1) |
| Director | Kimihisa Kittaka | (1) |
| Director | Nobuharu Sase | (1) |

| | | |
|---|---|---|
| Director (Outside) | Yasuhiko Okada | (2) (4) |
| Director (Outside) | Hiroshi Sato | (2) (4) |
| Director (Outside) | Isao Matsushita | (2) (4) |
| Director (Outside) | Jun Yanai | (2) (4) |
| Director (Outside) | Norinao Iio | (2) (4) |
| Director (Outside) | Atsuko Nishimura | (2) (4) |
| Audit & Supervisory Board Member | Kazuo Yamamoto | |
| Audit & Supervisory Board Member (Outside) | Hideyuki Toyama | (3) (4) |
| Audit & Supervisory Board Member (Outside) | Koji Sumiya | (3) (4) |
| Audit & Supervisory Board Member (Outside) | Masaru Funai | (3) (4) |

## Executive Officers

| | | |
|---|---|---|
| President & CEO | Takayuki Ueda | |
| Senior Managing Executive Officer | Masahiro Murayama | Senior Vice President, Finance & Accounting |
| Senior Managing Executive Officer | Seiya Ito | Senior Vice President, Ichthys Project |
| Senior Managing Executive Officer | Takahiko Ikeda | Senior Vice President, Technical Headquarters In charge of HSE and Compliance of the Company |
| Managing Executive Officer | Shunichiro Sugaya | Senior Vice President, Masela Project |
| Managing Executive Officer | Yoshikazu Kurasawa | Senior Vice President, New Ventures |
| Managing Executive Officer | Kimihisa Kittaka | Senior Vice President, Corporate Strategy & Planning |
| Managing Executive Officer | Nobuharu Sase | Senior Vice President, General Administration |
| Managing Executive Officer | Kenji Kawano | Senior Vice President, Asia & Australasia |
| Managing Executive Officer | Hiroshi Fujii | Senior Vice President, Abu Dhabi Projects |
| Managing Executive Officer | Shigeharu Yajima | Senior Vice President, Global Energy Marketing |
| Managing Executive Officer | Yoshinori Yamamoto | Senior Vice President, Domestic Energy Supply & Marketing |
| Managing Executive Officer | Kimiya Hirayama | Senior Vice President, Domestic Exploration & Production |
| Managing Executive Officer | Takashi Kubo | Senior Vice President, Logistics & IMT |
| Managing Executive Officer | Atsushi Sakamoto | Vice President, Ichthys Project Director, Onshore Project, Perth Office |
| Managing Executive Officer | Yoshiro Ishii | Senior Vice President, Renewable Energy & Power Business |
| Managing Executive Officer | Noboru Himata | Vice President, Finance & Accounting General Manager, Finance Unit |

| | | |
|---|---|---|
| Executive Officer | Hajime Kawai | Vice President, Masela Project |
| Executive Officer | Hideki Iwashita | Vice President, Ichthys Project Director, Commercial Coordination, Perth Office |
| Executive Officer | Tetsuo Yonezawa | General Manager, HSE Unit |
| Executive Officer | Hiroshi Nakamura | Vice President, General Administration General Manager, Human Resources Unit |
| Executive Officer | Tsuyoshi Watanabe | Vice President, General Administration General Manager, General Administration Unit |
| Executive Officer | Nobusuke Shimada | Vice President, Asia & Australasia General Manager, Exploration & Production Unit |
| Executive Officer | Kazuyoshi Miura | Vice President, Domestic Energy Supply & Marketing General Manager, Gas Marketing Unit |
| Executive Officer | Hideki Kurimura | Vice President, Masela Project Vice President, Technical Headquarters |
| Executive Officer | Toshiaki Takimoto | Senior Vice President, The Americas & Africa |
| Executive Officer | Yuzo Sengoku | Senior Vice President, Eurasia & the Middle East |
| Executive Officer | Yosuke Happo | Vice President, Finance & Accounting General Manager, Accounting Unit 2 Finance & Accounting Division |
| Executive Officer | Yoichi Iwata | Vice President, Ichthys Project General Manager, Planning & Coordination Unit, Ichthys Project Division |
| Executive Officer | Hitoshi Okawa | Vice President Ichthys Project Deputy General Manager Director, Corporate Coordination, Perth Office, Ichthys Project Division |
| Executive Officer | Koichi Ogino | Vice President, Domestic Exploration & Production General Manager, Production Unit East Japan Regional Office Domestic Exploration & Production Division |

(1) Concurrently hold the position of executive officer
(2) Outside directors as defined in Article 2, Item 15, of the Companies Act
(3) Outside Audit & Supervisory Board members as defined in Article 2, Item 16, of the Companies Act
(4) Independent directors/auditors as defined in Article 436, Item 2, Sub-Item 1, of the Securities Listings Regulations for the Tokyo Stock Exchange

## Toshiaki Kitamura

| | |
|---|---|
| April 1972 | Joined Ministry of International Trade and Industry (currently Ministry of Economy, Trade and Industry) |
| July 2002 | Director-General for Trade and Economic Cooperation Bureau, Ministry of Economy, Trade and Industry |
| July 2003 | Director-General for Manufacturing Industries Bureau, Ministry of Economy, Trade and Industry |
| June 2004 | Director-General for Trade Policy Bureau, Ministry of Economy, Trade and Industry |
| July 2006 | Vice-Minister for International Affairs, Ministry of Economy, Trade and Industry |
| November 2007 | Advisor to Tokio Marine & Nichido Fire Insurance Co., Ltd. |
| August 2009 | Senior Executive Vice President of the Company |
| June 2010 | Representative Director, President & CEO of the Company |
| June 2018 | Representative Director, Chairman of the Company (incumbent) |

## Takayuki Ueda

| | |
|---|---|
| April 1980 | Joined Ministry of International Trade and Industry (MITI) (currently Ministry of Economy, Trade and Industry/METI) |
| July 2010 | Deputy Vice-Minister of Economy, Trade and Industry |
| August 2011 | Director-General for Manufacturing Industries Bureau |
| September 2012 | Director-General for Trade Policy Bureau |
| June 2013 | Commissioner, Agency for Natural Resources and Energy |
| July 2015 | Vice-Minister for International Affairs |
| April 2017 | Joined INPEX CORPORATION as Counselor |
| August 2017 | Senior Executive Vice President of the Company |
| June 2018 | Representative Director, President & CEO of the Company (incumbent) |

## Masahiro Murayama

| | |
|---|---|
| April 1976 | Joined The Industrial Bank of Japan, Ltd. (currently Mizuho Bank, Ltd., etc.) |
| June 1999 | General Manager of Financial Institutions Banking Division No. 2 of The Industrial Bank of Japan, Ltd. |
| June 2001 | General Manager of Corporate Banking Department No. 2 of The Industrial Bank of Japan, Ltd. |
| April 2002 | General Manager of Corporate Banking Division No. 9 of Head Office of Mizuho Corporate Bank, Ltd. (currently Mizuho Bank, Ltd.) |
| December 2002 | General Manager of Syndicated Finance Structuring Division No. 1 of Mizuho Corporate Bank, Ltd. |
| October 2003 | General Manager of Syndicated Finance Distribution Division No. 1 of Mizuho Corporate Bank, Ltd. |
| April 2004 | Executive Officer, General Manager of Syndicated Finance Distribution Division No. 1 of Mizuho Corporate Bank, Ltd. |
| October 2004 | Executive Officer, General Manager of Loan Trading Division of Mizuho Corporate Bank, Ltd. |
| April 2005 | Managing Executive Officer, in charge of corporate banking of Mizuho Corporate Bank, Ltd. |
| April 2008 | Director, Deputy President of Mizuho Securities Co., Ltd. |
| May 2009 | Advisor to the Company |
| June 2009 | Director, Managing Executive Officer, Senior Vice President of Finance & Accounting of the Company |
| June 2016 | Director, Senior Managing Executive Officer, Senior Vice President of Finance & Accounting of the Company (incumbent) |

## Seiya Ito

| | |
|---|---|
| April 1977 | Joined Indonesia Petroleum, Ltd. (INPEX Corporation) |
| April 2002 | General Manager of Corporate Planning & Management Department of INPEX Corporation |
| June 2003 | Director, General Manager of Corporate Planning & Management Department of INPEX Corporation |
| November 2004 | Director, General Manager of Corporate Planning & Management Department and Public Affairs Department of INPEX Corporation |
| September 2005 | Director, Assistant Senior General Manager of Corporate Strategy & Administration Division, General Manager of Corporate Strategy & Planning Unit and Public Affairs Unit of INPEX Corporation |
| April 2006 | Director, Assistant Senior General Manager of Corporate Strategy & Planning Division, General Manager of Corporate Strategy & Planning Unit and Senior Fellow of Public Affairs Unit of INPEX Holdings Inc. (currently the Company) |
| July 2006 | Director, Deputy Senior General Manager of Oceania & America Project Division of INPEX Corporation |
| October 2008 | Director, Managing Executive Officer, Senior Vice President of Ichthys Project of the Company |
| June 2016 | Director, Senior Managing Executive Officer, Senior Vice President of Ichthys Project of the Company (incumbent) |

## Takahiko Ikeda

| | |
|---|---|
| April 1978 | Joined Teikoku Oil Co., Ltd. |
| March 2002 | General Manager of Production Department, Domestic Operating Division of Teikoku Oil Co., Ltd. |
| March 2004 | Senior General Manager of Production Department, Teikoku Oil Co., Ltd. |
| March 2005 | Director, Domestic Operating Division of Teikoku Oil Co., Ltd. |
| April 2006 | General Manager of Domestic Project Planning and Administration Unit, Corporate Strategy & Administration Division of INPEX Holdings Inc. (currently the Company) |
| June 2007 | Managing Director, President of Domestic Operation Division and General Manager of Niigata District Department of Teikoku Oil Co., Ltd. |
| October 2008 | Director, Managing Executive Officer, Senior Vice President of Domestic Projects of the Company |
| June 2014 | Director, Managing Executive Officer, Senior Vice President of Gas Supply & Infrastructure of the Company |
| April 2017 | Director, Managing Executive Officer, Senior Vice President of Technical Headquarters of the Company |
| June 2018 | Director, Senior Managing Executive Officer and Senior Vice President, Technical Headquarters, In charge of HSE and Compliance of the Company (incumbent) |

## Shunichiro Sugaya

| | |
|---|---|
| April 1976 | Joined Indonesia Petroleum, Ltd. (INPEX Corporation) |
| April 1997 | General Manager of Development Department of Indonesia Petroleum, Ltd. |
| June 2001 | Director, General Manager of Development Department of INPEX Corporation |
| June 2002 | Director, Coordinator in charge of Development Department of INPEX Corporation |
| September 2005 | Director, Senior General Manager of Asia Project Division, Assistant Senior General Manager of Technology and HSE Division of INPEX Corporation |
| June 2007 | Managing Director, Senior General Manager of Asia Project Division of INPEX Corporation |
| October 2008 | Director, Managing Executive Officer, Senior Vice President of Masela Project of the Company (incumbent) |

## Yoshikazu Kurasawa

| | |
|---|---|
| April 1982 | Joined Japan National Oil Corporation |
| February 2004 | Deputy General Manager of Planning & New Ventures Department of INPEX Corporation |
| April 2005 | General Manager of Planning & New Ventures Department of INPEX Corporation |
| September 2005 | General Manager of Business Development and Legal Unit, General Administration & Corporate Planning Division of INPEX Corporation |
| April 2006 | General Manager of Overseas Project Planning and Administration Unit, Corporate Strategy & Administration Division of INPEX Holdings Inc. (currently the Company) |
| June 2007 | Executive Officer, General Manager of Business Development and Legal Unit, General Administration & Corporate Planning Division of INPEX Corporation |
| October 2008 | Executive Officer, Assistant Senior General Manager of Corporate Strategy & Planning, General Manager of Business Development and Legal Unit of the Company |
| June 2011 | Managing Executive Officer, Vice President of Corporate Strategy & Planning of the Company |
| June 2012 | Director, Managing Executive Officer, Senior Vice President of New Ventures of the Company (incumbent) |

## Kimihisa Kittaka

| | |
|---|---|
| April 1981 | Joined Ministry of International Trade and Industry (currently Ministry of Economy, Trade and Industry) |
| October 2007 | Director-General for Consumer Policy, Ministry of Economy, Trade and Industry |
| July 2008 | Director-General for Kyushu Bureau of Ministry of Economy, Trade and Industry |
| November 2010 | Joined the Company and assumed the post of Senior Coordinator of Business Development & Legal Unit, Corporate Strategy & Planning Division |
| June 2011 | General Manager of Corporate Strategy & Planning Unit, and of Corporate Communications Unit, Corporate Strategy & Planning Division of the Company |
| June 2012 | Executive Officer, Vice President of Corporate Strategy & Planning Division, General Manager of Corporate Strategy & Planning Unit, and Corporate Communication Unit of the Company |
| June 2016 | Director, Managing Executive Officer, Senior Vice President of Corporate Strategy & Planning Division of the Company (incumbent) |

## Nobuharu Sase

| | |
|---|---|
| April 1981 | Joined Indonesia Petroleum, Ltd. (INPEX Corporation) |
| September 2005 | General Manager of Secretary Unit, Corporate Strategy & Administration Division of INPEX Corporation |
| April 2006 | General Manager of Secretary Unit, General Administration Division of INPEX Holdings Inc. (currently the Company) |
| October 2008 | Assistant Senior Vice President of General Administration Division, General Manager of Secretary Unit of the Company |
| June 2010 | Executive Officer, Vice President of Oil & Gas Business Division No. 1, General Manager of Oil Marketing Unit of the Company |
| June 2016 | Director, Managing Executive Officer, Senior Vice President of General Administration Division of the Company (incumbent) |

## Yasuhiko Okada

| | |
|---|---|
| April 1966 | Joined Ministry of Finance |
| July 1994 | Director-General for the Tokyo Regional Taxation Bureau |
| May 1995 | Secretary-General of Executive Bureau, Securities and Exchange Surveillance Commission |
| July 1999 | Administrative Vice-Minister of Environment Agency (currently Ministry of the Environment) |
| June 2003 | President of National Association of Labour Banks; President of The Rokinren Bank |
| January 2012 | Attorney at Law admitted to practice in Japan; Partner of Kitahama Partners (Tokyo Office) (incumbent) |
| June 2012 | Director of the Company (incumbent) |

## Hiroshi Sato

| | |
|---|---|
| April 1970 | Joined Japan Petroleum Exploration Co., Ltd. (JAPEX) |
| June 2002 | Director, General Manager of Finance and Accounting Department of JAPEX |
| June 2005 | Managing Executive Officer of JAPEX |
| April 2006 | Audit & Supervisory Board Member (part-time) of INPEX Holdings Inc. (currently the Company) |
| June 2006 | Managing Director & Executive Officer of JAPEX |
| June 2007 | Senior Managing Director & Executive Officer of JAPEX |
| June 2010 | Executive Vice President & Executive Officer of JAPEX |
| June 2014 | Advisor of JAPEX (incumbent) |
| June 2015 | Director (Outside) of the Company (incumbent) |

## Isao Matsushita

| | |
|---|---|
| April 1970 | Joined Nihon Kogyo Co., Ltd. |
| April 2001 | Executive Officer, Assistant to General Manager of Corporate Planning Department and Principal of Corporate Planning Department (in charge of Finance) of Japan Energy Corporation |
| September 2002 | Member of the Board of Nippon Mining Holdings, Inc., in charge of Finance Group |
| June 2003 | Executive Board Member of Nippon Mining Holdings, Inc. |
| April 2004 | Executive Vice President, in charge of Supply and Demand Department, Logistics Department and Crude Material Department of Japan Energy Corporation |
| June 2004 | Member of the Board, Executive Vice President of Japan Energy Corporation |
| April 2005 | Member of the Board, Senior Executive Vice President of Japan Energy Corporation |
| June 2006 | President and Representative Director of Japan Energy Corporation |
| April 2010 | Member of the Board of JX Holdings, Inc. (part-time) |
| July 2010 | Executive Vice President, JX Nippon Oil & Energy Corporation |
| June 2012 | Representative Director and President, President and Chief Executive Officer of JX Holdings, Inc. |
| June 2015 | Senior Executive Advisor of JX Holdings, Inc. |
| June 2016 | Director (outside) of the Company (incumbent) |
| April 2017 | Senior Executive Advisor of JXTG Holdings, Inc. (incumbent) |

## Jun Yanai

| | |
|---|---|
| April 1973 | Joined Mitsubishi Corporation |
| May 2001 | Senior Assistant to Group CEO of Energy Business Group of Mitsubishi Corporation |
| April 2004 | Senior Vice President, Senior Assistant to Group CEO of Energy Business Group of Mitsubishi Corporation |
| April 2005 | Senior Vice President, Division COO, of Petroleum Business Division of Mitsubishi Corporation |
| April 2008 | Executive Vice President, Group COO of Energy Business Group of Mitsubishi Corporation |
| April 2011 | Executive Vice President, Group CEO of Energy Business Group of Mitsubishi Corporation |
| April 2013 | Member of the Board, Executive Vice President, Group CEO of Energy Business Group of Mitsubishi Corporation |
| June 2013 | Member of the Board, Senior Executive Vice President, Group CEO of Energy Business Group of Mitsubishi Corporation |
| April 2014 | Member of the Board, Senior Executive Vice President, Group CEO of Energy Business Group, Chief Compliance Officer of Mitsubishi Corporation |
| June 2016 | Advisor of Mitsubishi Corporation (incumbent) |
| June 2016 | Director (Outside) of the Company (incumbent) |

## Norinao Iio

| | |
|---|---|
| June 1973 | Joined Mitsui & Co., Ltd. |
| April 2001 | General Manager, Natural Gas Second Division Tokyo Head Office, Mitsui & Co., Ltd. |
| April 2005 | Managing Officer, Chief Operating Officer, Energy Business Unit, Mitsui & Co., Ltd. |
| April 2008 | Executive Managing Officer, Chief Operating Officer, Europe Middle East and Africa Unit, Mitsui & Co., Ltd. |
| October 2008 | Senior Executive Managing Officer, Chief Operating Officer, Europe Middle East and Africa Unit, Mitsui & Co., Ltd. |
| June 2009 | Representative Director, Senior Executive Managing Officer, Mitsui & Co., Ltd. |
| August 2009 | Representative Director, Senior Executive Managing Officer, Chief Compliance Officer of Mitsui & Co., Ltd. |
| April 2010 | Representative Director, Senior Executive Managing Officer, Mitsui & Co., Ltd. |
| April 2011 | Director, Mitsui & Co., Ltd. |
| June 2011 | Counselor, Mitsui & Co., Ltd. |
| June 2017 | Director (Outside) of the Company (incumbent) |

## Atsuko Nishimura

| | |
|---|---|
| April 1979 | Joined Ministry of Foreign Affairs |
| June 1995 | Director, First Africa Division, Middle Eastern and African Affairs Bureau |
| August 1999 | Counselor/Minister, Permanent Mission of Japan to the United Nations |
| June 2001 | Minister, Embassy of Japan in Belgium |
| September 2004 | Professor, School of Law, Tohoku University |
| June 2008 | Administrative Vice President, Japan Foundation |
| April 2012 | Senior Councilor, Japan Oil, Gas and Metals National Corporation |
| April 2014 | Ambassador Extraordinary and Plenipotentiary to the Grand Duchy of Luxembourg |
| July 2016 | Ambassador Extraordinary and Plenipotentiary in charge of Women, Human Rights and Humanitarian Affairs |
| June 2017 | Director (Outside) of the Company (incumbent) |

## Kazuo Yamamoto

| | |
|---|---|
| April 1978 | Joined Teikoku Oil Co., Ltd. |
| March 2002 | General Manager of Petroleum Products Marketing Department, Marketing Division of Teikoku Oil Co., Ltd. |
| August 2003 | General Manager of Petroleum Products Marketing Department and Power Business Department, Marketing Division of Teikoku Oil Co., Ltd. |
| March 2004 | Senior General Manager, General Manager of Petroleum Products Marketing Department and Power Business Department, Marketing Division of Teikoku Oil Co., Ltd. |
| March 2005 | Director, General Manager of Technical Planning Department and Deputy General Manager of LNG Planning Office of Teikoku Oil Co., Ltd. |
| April 2006 | General Manager of Technology Planning Unit, Technology Division of INPEX Holdings Inc. (currently the Company) |
| October 2008 | Executive Officer, Assistant to General Manager of Technical Division, General Manager of Technical Planning Unit of the Company |
| November 2010 | Executive Officer, Assistant to General Manager of Technical Division, General Manager of Technical Infrastructure Unit of the Company |
| June 2011 | Managing Executive Officer, General Manager of Logistics & IMT Division of the Company |
| June 2015 | Audit & Supervisory Board Member (full-time) of the Company (incumbent) |

## Hideyuki Toyama

| | |
|---|---|
| April 1975 | Joined Ministry of Finance |
| July 2001 | Director-General of Sapporo Regional Taxation Bureau, National Tax Agency (NTA) |
| July 2003 | Executive Secretary of the Administration Office of the Director-General, Cabinet Legislation Bureau (CLB) |
| July 2005 | Director-General of the Fourth Department, CLB |
| October 2006 | Director-General of the Third Department, CLB |
| November 2012 | Advisor, Aioi Nissay Dowa Insurance Co., Ltd. |
| January 2013 | Registered as attorney-at-law (incumbent) |
| April 2013 | Visiting Professor, Graduate School of Public Policy, University of Tokyo (incumbent) |
| June 2015 | Audit & Supervisory Board Member (full-time) of the Company (incumbent) |

## Koji Sumiya

| | |
|---|---|
| April 1976 | Joined The Export-Import Bank of Japan (currently Japan Bank for International Cooperation) |
| April 2001 | Director General, International Finance Department I of Japan Bank for International Cooperation (Currently Japan Bank for International Cooperation) |
| April 2002 | Director General, Policy Planning and Coordination Department of Japan Bank for International Cooperation |
| October 2005 | Resident Executive Director, Osaka Branch of Japan Bank for International Cooperation |
| October 2007 | Senior Executive Director of Japan Bank for International Cooperation |
| October 2008 | Managing Executive Officer of Japan Bank for International Cooperation, Japan Finance Corporation (Currently Japan Bank for International Cooperation) |
| May 2010 | Retired from Japan Bank for International Cooperation, Japan Finance Corporation |
| June 2010 | Audit & Supervisory Board Member (full-time) of the Company (incumbent) |

## Masaru Funai

| | |
|---|---|
| April 1972 | Joined Marubeni Corporation |
| April 1998 | General Manager, Corporate Planning & Coordination Department of Marubeni Corporation |
| April 2000 | Executive Vice President and CFO of Marubeni America Corporation |
| April 2001 | Executive Vice President, CFO and CAO of Marubeni America Corporation |
| April 2002 | General Manager, Risk Management Department of Marubeni Corporation |
| April 2003 | Corporate Vice President, General Manager, Corporate Planning & Coordination Department of Marubeni Corporation |
| April 2005 | Corporate Senior Vice President, CIO, Executive Corporate Officer, Human Resources Department, Information Strategy Department and Risk Management Department of Marubeni Corporation |
| June 2005 | Corporate Senior Vice President, Member of the Board, CIO, Executive Corporate Officer, Human Resources Department, Information Strategy Department and Risk Management Department of Marubeni Corporation |
| April 2007 | Corporate Executive Vice President, Member of the Board, Executive Corporate Officer, General Affairs Department, Human Resources Department, Risk Management Department and Legal Department of Marubeni Corporation |
| April 2009 | Senior Executive Vice President, Member of the Board, CIO, Chief Operating Officer, Information Strategy Department, Corporate Accounting Department, Business Accounting Department-I, Business Accounting Department-II, Business Accounting Department-III and Finance Department, Senior Operating Officer, Audit Department, Chief Operating Officer, Investor Relations of Marubeni Corporation |
| April 2010 | Senior Executive Vice President, Member of the Board, Senior Operating Officer, Audit Department of Marubeni Corporation |
| June 2010 | Audit & Supervisory Board Member of the Company (incumbent) |
| April 2011 | Senior Consultant of Marubeni Corporation |

# Financial Corporate Information



# 11-Year Financial Information

INPEX CORPORATION and Consolidated Subsidiaries

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥106.27=US$1.00, the approximate exchange rate in effect as of March 31, 2018.

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(Results of operations)** | 2008/3 | 2009/3 | 2010/3 | 2011/3 | 2012/3 | 2013/3 | 2014/3 | 2015/3 |
| Net sales | ¥1,202,965 | ¥1,076,165 | ¥ 840,427 | ¥ 943,080 | ¥1,186,732 | ¥1,216,533 | ¥1,334,626 | ¥1,171,227 |
| Cost of sales | 390,554 | 319,038 | 298,168 | 334,833 | 395,443 | 426,326 | 490,417 | 525,444 |
| Gross profit | 812,411 | 757,127 | 542,259 | 608,247 | 791,289 | 790,207 | 844,209 | 645,783 |
| Operating income | 714,211 | 663,267 | 461,668 | 529,743 | 709,358 | 693,448 | 733,610 | 534,886 |
| Income before income taxes | 685,800 | 616,167 | 442,027 | 508,587 | 767,039 | 718,146 | 750,078 | 540,023 |
| Net income attributable to owners of parent | ¥ 173,246 | ¥ 145,063 | ¥ 107,210 | ¥ 128,699 | ¥ 194,001 | ¥ 182,962 | ¥ 183,691 | ¥ 77,820 |
| **(Financial position)** | | | | | | | | |
| Current assets | ¥ 565,111 | ¥ 411,110 | ¥ 492,855 | ¥ 492,932 | ¥ 908,702 | ¥1,106,504 | ¥1,140,204 | ¥1,342,410 |
| Tangible fixed assets | 254,481 | 297,636 | 358,094 | 379,862 | 383,698 | 584,541 | 951,779 | 1,497,622 |
| Intangible assets | 265,481 | 253,681 | 239,205 | 249,111 | 233,318 | 380,156 | 439,179 | 458,770 |
| Investments and other assets | 722,828 | 805,618 | 923,624 | 1,558,475 | 1,540,680 | 1,544,958 | 1,506,977 | 1,200,352 |
| Total assets | 1,807,901 | 1,768,045 | 2,013,778 | 2,680,380 | 3,066,398 | 3,616,159 | 4,038,139 | 4,499,154 |
| Current liabilities | 325,286 | 206,059 | 227,905 | 254,729 | 367,844 | 414,977 | 375,670 | 365,212 |
| Long-term liabilities | 243,802 | 199,925 | 295,270 | 328,268 | 384,361 | 530,198 | 666,432 | 845,238 |
| Net assets | ¥1,238,813 | ¥1,362,061 | ¥1,490,603 | ¥2,097,383 | ¥2,314,193 | ¥2,670,984 | ¥2,996,037 | ¥3,288,704 |
| **(Cash flows)** | | | | | | | | |
| Cash flows from operating activities | ¥ 363,995 | ¥ 230,352 | ¥ 241,373 | ¥ 274,094 | ¥ 320,692 | ¥ 252,347 | ¥ 213,514 | ¥ 216,749 |
| Cash flows from investing activities | (261,767) | (240,168) | (251,812) | (844,511) | (280,864) | (489,870) | (395,555) | (81,087) |
| Cash flows from financing activities | (45,228) | (46,090) | 68,937 | 548,057 | 29,294 | 137,069 | 48,961 | (4,178) |
| Cash and cash equivalents at end of the period | ¥ 222,270 | ¥ 162,845 | ¥ 216,395 | ¥ 182,025 | ¥ 249,233 | ¥ 199,859 | ¥ 117,531 | ¥ 260,978 |
| **(Per share data)** | | | | | | | | |
| Net assets per share (Yen) | ¥1,227.92* | ¥1,350.25* | ¥1,473.87* | ¥1,367.40* | ¥1,492.27* | ¥1,699.10* | ¥1,911.25* | ¥ 2,099.95 |
| Cash dividends per share (Yen) | 18.75* | 20.00* | 13.75* | 15.00* | 17.50* | 17.50* | 18.00* | 18.00 |
| Earnings per share (EPS) (Yen) | ¥ 183.78* | ¥ 154.00* | ¥ 113.88* | ¥ 102.08* | ¥ 132.84* | ¥ 125.29* | ¥ 125.78* | ¥ 53.29 |

* Retroactively adjusted for a stock split at a ratio of 1:400 of common stock on October 1, 2013.

| **(Financial indicators)** | 2008/3 | 2009/3 | 2010/3 | 2011/3 | 2012/3 | 2013/3 | 2014/3 | 2015/3 |
|---|---|---|---|---|---|---|---|---|
| Net debt / Net total capital employed (%) | (36.1)% | (31.2)% | (30.6)% | (48.9)% | (60.7)% | (43.9)% | (31.9)% | (16.8)% |
| Equity ratio (%) | 64.0 | 71.9 | 68.9 | 74.5 | 71.1 | 68.6 | 69.1 | 68.2 |
| D/E ratio (%) | 16.8% | 12.9% | 17.3% | 13.7% | 14.6% | 19.2% | 20.9% | 22.1% |

| Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|
| 2016/3 | 2017/3 | 2018/3 | 2018/3 |
| ¥1,009,564 | ¥ 874,423 | ¥ 933,702 | $ 8,786,130 |
| 526,758 | 453,847 | 498,039 | 4,686,544 |
| 482,806 | 420,576 | 435,663 | 4,099,586 |
| 390,139 | 336,453 | 357,363 | 3,362,783 |
| 328,887 | 327,525 | 307,300 | 2,891,691 |
| ¥ 16,777 | ¥ 46,168 | ¥ 40,363 | $ 379,816 |
| | | | |
| ¥ 984,345 | ¥ 942,960 | ¥ 469,583 | $ 4,418,773 |
| 1,752,615 | 1,928,598 | 2,044,620 | 19,239,861 |
| 541,471 | 521,253 | 541,503 | 5,095,540 |
| 1,091,411 | 919,363 | 1,199,859 | 11,290,665 |
| 4,369,842 | 4,312,174 | 4,255,565 | 40,044,839 |
| 319,128 | 297,465 | 309,194 | 2,909,514 |
| 871,911 | 807,166 | 787,502 | 7,410,389 |
| ¥3,178,803 | ¥3,207,543 | ¥3,158,869 | $29,724,936 |
| | | | |
| ¥ 183,708 | ¥ 275,810 | ¥ 278,539 | $ 2,621,050 |
| (543,534) | 53,484 | (351,908) | (3,311,452) |
| 156,726 | (65,428) | 34,742 | 326,922 |
| ¥ 53,813 | ¥ 316,791 | ¥ 276,080 | $ 2,597,911 |
| | | | |
| ¥ 2,008.34 | ¥ 2,015.38 | ¥ 1,997.24 | $ 18.79 |
| 18.00 | 18.00 | 18.00 | 0.17 |
| ¥ 11.49 | ¥ 31.61 | ¥ 27.64 | $ 0.26 |
| | | | |
| (8.1)% | 0.9% | 11.8% | 11.8% |
| 67.1 | 68.3 | 68.5 | 68.5 |
| 25.3% | 23.4% | 24.0% | 24.0% |

## Notes

* EBIDAX = Net income (including non-controlling interests) + Deferred tax + (1 – Tax rate) × (Interest expense – Interest income) + Foreign exchange gain and loss + Depreciation and amortization + Amortization of goodwill + Recovery of recoverable accounts under production sharing (capital expenditures) + Exploration expenses + Provision for exploration projects + Provision for allowance for recoverable accounts under production sharing – Gain on reversal of allowance for recoverable accounts under production sharing + Impairment loss

* Net assets excluding non-controlling interests = Net assets – Non-controlling interests

* Equity ratio = Net assets excluding non-controlling interests / Total assets

* Net debt = Interest-bearing debt – Cash and cash equivalents – Time deposits – Certificate of deposits – Public bonds and corporate bonds and other debt securities with determinable value – Long-term time deposits

* Net debt / Net total capital employed = Net debt / (Net assets + Net debt)

* D/E ratio = Interest-bearing debt / (Net assets – Non-controlling interests)

* ROE = Net income attributable to owners of parent / Average of net assets excluding non-controlling interests at the beginning and end of the year

* The reserves cover most of INPEX group projects including the equity-method affiliates. The reserves from March 31, 2007 to March 31 2010 were evaluated by DeGolyer & MacNaughton, and from March 31, 2011, the reserves of projects which are expected to be invested a large amount and affect the Group's future result materially are evaluated by DeGolyer & MacNaughton, and the others are done internally.
The proved reserves are evaluated in accordance with SEC regulations.
The probable reserves are sum of proved reserves and probable reserves evaluated in accordance with SPE/WPC/AAPG/SPEE guideline Petroleum Resources Management System 2007(PRMS) approved in March 2007 after deduction of proved reserves evaluated in accordance with SEC regulations. Probable reserves as of March 31, 2007 are evaluated in accordance with the guideline established by SPE and WPC (1997 SPE/WPC).
Possible reserves are evaluated in accordance with PRMS.

* Production volumes are calculated in accordance with SEC regulations and include the equity-method affiliates. The production volume of crude oil and natural gas under the production sharing contracts entered into by the Group corresponds to the net economic take of the Group.
Calculation of the conversion factor from gas to oil equivalent was altered from the year ended March 31, 2012.

Notes: In consolidated financial statements, amounts are basically rounded to the nearest million.

# Oil and Gas Accounting Policies and Treatment

## ACCOUNTING METHODS FOR TYPES OF AGREEMENTS

The oil and gas business generates the bulk of consolidated net sales revenues for INPEX CORPORATION and its consolidated subsidiaries (the "Group"). Two types of agreements govern the Group's oil and gas operations. One is production sharing contracts (the "PSCs") and the other is concession agreements. The latter category also includes domestic mining rights, as well as overseas permits, licenses and lease agreements.

### 1. Production sharing contracts

Production sharing contract is an agreement by which one or several oil and gas development companies serve as contractors that undertake at their own expense exploration and development work on behalf of the governments of oil-producing countries or national oil companies and receive production from the projects as cost recovery and compensation.

#### Cost recovery and production sharing

The PSCs determine the allocation of oil and gas production among the host country's government (or related entity) and the contractors such as the Group. The allocation formula generally differs according to the terms of the individual PSC. The overview below is specific to one type of PSC typical of many oil and gas projects in Indonesia, a country with which the Group has concluded numerous PSCs.

Under this type of arrangement, the total production in any given year or other accounting period is allocated at the end of the period between three portions.

(1) **"First tranche petroleum":** This is a prescribed portion of total production allocated between the host country's government and the contractors in line with agreed percentages.

(2) **"Cost recovery portion":** This is the oil and gas equivalent of a) non-capital production-related expenditures incurred in that period, plus b) the scheduled depreciation expenses in that period for capital expenditures, as calculated under the PSC. The equivalents are determined based on the current unit prices of crude oil and natural gas and allocated between the contractors alone. The quantity of oil and gas in the "cost recovery portion" decreases as unit prices increase, whereas that of the "equity portion" (explained below) rises.

If the actual production for the period is insufficient to cover the quantity of oil and gas equivalent calculated for the cost recovery portion, the latter is capped at actual production and any surplus amount is carried forward to the following period, as stipulated in the PSC.

(3) **"Equity portion":** This is any residual production after the first two portions have been allocated. It is allocated between the host country's government and the contractors based on agreed percentages.

The calculation of items in the income statement based on the above PSC-related considerations is as follows:

- The Group records as net sales its share of total sales relating to the oil and gas production that is allocated to contractors under the PSCs.
- The Group books as cost of sales the portion of "Recoverable accounts under production sharing" that is recovered through the allocation of its share of the "cost recovery portion."

#### Recoverable costs under the PSCs

**Exploration costs**

The share of recoverable exploration costs incurred by the Group under the terms of the relevant PSC is capitalized within "Recoverable accounts under production sharing."

**Development costs**

The share of all development costs incurred by the Group that is recoverable under the terms of the relevant PSC is recorded within "Recoverable accounts under production sharing."

**Production costs**

Any operating costs incurred during the production phase that are recoverable under the relevant PSC are initially recorded within "Recoverable accounts under production sharing."

**Administrative expenses**

Any administrative expenses that are recoverable under the relevant PSC are recorded within "Recoverable accounts under production sharing."

As noted, in "Cost recovery and production sharing," these costs are recovered either as capital or operating expenditures.

#### Non-recoverable costs under the PSCs

**Acquisition costs**

Costs relating to the acquisition of rights (recorded as intangible assets under "Exploration and development rights") for any projects governed by the PSCs that are entirely in the exploration phase are expensed as incurred and amortized. Expenditures or costs relating to the acquisition of rights to projects already in the development or production phase are capitalized within "Exploration and development rights" and amortized based on the unit-of-production method. These amortization costs are recorded within "Depreciation and amortization." Cost recovery provisions in the PSCs do not generally cover these expenditures.

### 2. Concession agreements

Concession agreement is an agreement or authorization (including mining rights awarded in Japan, as well as overseas permits, licenses and lease agreements) by which a government entity or a national oil company of the country directly awards mining rights to an oil company. The oil company makes its own investment in exploration and development and has the right of disposition of the oil and gas it extracts. Revenues are returned to the host country in the form of royalties, taxes, etc., on sales.

**Acquisition costs**

Costs relating to the acquisition of rights (recorded as intangible assets under "Mining rights") for projects governed by concession agreements are treated in the same way as projects governed by the PSCs, as described above.

**Exploration costs**

The Group's share of exploration costs is expensed as incurred.

**Development costs**

The Group's share of any development costs related to mining facilities is capitalized within tangible fixed assets. The depreciation of tangible fixed assets that are governed by concession agreements is computed primarily using the unit-of-production method for mining assets located outside Japan and the straight-line method for domestic facilities. These depreciation expenses are recorded within the cost of sales.

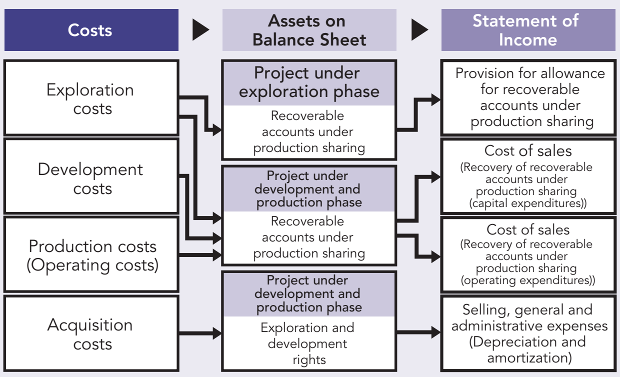
**Production costs**

The Group's share of operating costs that are incurred during the production phase is recorded within the cost of sales.

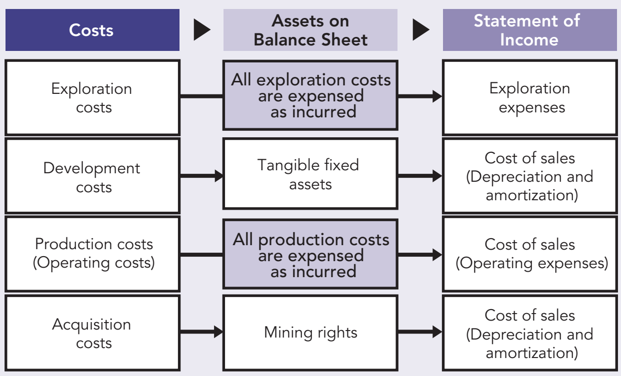
**Administrative expenses**

The Group's share of administrative expenses is expensed as incurred.

Production sharing contracts




Concession agreements



# CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Group's consolidated financial statements are prepared in conformity with Japanese GAAP. The preparation of these financial statements requires the application of estimates, judgments and assumptions that affect the reported values of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses for the reporting period. Actual results may differ from the previously estimated or assumed values.

Accounting estimates pursuant to the preparation of the consolidated financial statements are deemed critical if the degree of uncertainty associated with such estimates is high, or if rational changes to such estimates could exert a material impact on the financial condition or operating results. Critical accounting policies and estimates relating to the financial presentation are outlined below.

**— Allowance for recoverable accounts under production sharing**

Any expenditures made during the exploration, development and production phases of projects governed by the PSCs are capitalized within "Recoverable accounts under production sharing" if they are recoverable under the relevant PSC. An allowance equal to exploration costs is recorded within "Allowance for recoverable accounts under production sharing" to provide for potential losses from unsuccessful exploration. This allowance typically remains unchanged on the balance sheet until it exceeds the residual balance of exploration costs that previously had been capitalized within "Recoverable accounts under production sharing" during the exploration phase. Reflecting the uncertainty associated with oil and gas projects, an allowance is recorded within "Allowance for recoverable accounts under production sharing" to provide for probable losses on development activities, as individually estimated for each project. Although assessments and accounting estimates are made on a reasonable basis, actual operating results can change depending on the project status.

**— Unit-of-production method**

Overseas mining facilities, mining rights and exploration and development rights that are acquired during the development and production phase are mainly depreciated or amortized based on the unit-of-production method. This approach requires the estimation of reserves. Although the Group believes that the assessment of reserves is done in an appropriate manner, any changes in these estimates could significantly affect future operating results.

**— Asset retirement obligations**

Asset retirement obligations are recorded by a reasonable estimate of the present value of retirement costs incurred upon termination of the operation and production with respect to oil and gas production facilities, based on the oil and gas contracts or laws and regulations within the countries in which the Group operates or has working interests. Although the Group believes that such estimates of the present value of retirement costs are reasonable, changes to estimates of the present value of retirement costs which are caused by the factors such as changes to retirement plans, escalating prices of drilling equipment and materials and others could significantly affect future operating results.

**— Allowance for investments in exploration companies**

An allowance is recorded to provide for probable losses on investments made by the Group in entities engaged in oil and gas activities, as estimated based on the net assets of such entities. Although the Group believes that the assessments and estimates relating to such investments are reasonable, changes in actual production volumes, prices or foreign exchange rates could significantly affect future operating results.

**— Provision for exploration projects**

A provision for exploration projects is provided for future expenditures of consolidated subsidiaries at the exploration stage based on a schedule of investments in exploration. Although the Group believes that assessments relating to the schedule of investments are reasonable, changes to the schedule could significantly affect future operating results.

**— Provision for loss on business**

A provision for loss on business is provided for future potential loss on crude oil and natural gas development, production and sales business individually estimated for each project. Although assessments and accounting estimates are made on a reasonable basis, actual operating results can change depending on the business status.

**— Deferred tax assets**

Deferred tax assets reflect temporary differences (including net operating loss carry-forwards) arising mainly from the write-down of exploration expenditures, foreign taxes payable and excess of tax allowable depreciation. Valuation allowances are provided once it is judged that the non-realization of deferred tax assets has become the more probable outcome. The effect of foreign tax credits is taken into account in the calculation of such valuation allowances. The realization of deferred tax assets is principally dependent on the generation of sufficient taxable income, based on the available information. Adjustments to deferred tax assets could be required if future taxable income was lower than expected due to market conditions, foreign exchange rate fluctuations or poor operating performance.

**— Retirement benefits to employees**

Retirement benefit obligation to employees are recognized at the net present value of future obligations as of the end of the accounting period, taking into account any periodic benefit costs that have arisen during the period. The calculation of retirement benefit obligations and retirement benefit expenses is based on various actuarial assumptions, including the discount rate, employee turnover and retirement rates, remuneration growth rates, and the long-term expected return on plan assets. Future operating results could be significantly affected by deviation between the base assumptions and actual results or the revision of such assumptions which were to generate actuarial gains or losses.

**— Goodwill**

The excess cost over underlying net assets excluding non-controlling interests as fair value as of their dates of acquisition is accounted for as goodwill and amortized over 20 years on a straight-line method.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## BUSINESS ENVIRONMENT

During the year ended March 31, 2018, the global economy overall continued to gradually recover due to steady economies in Europe and the United States and economic recovery in China and other Asian markets despite uncertainty caused by geopolitical risks. The Japanese economy continued on its trajectory of moderate recovery as consumption per capita and capital expenditures showed signs of recovery as corporate earnings, employment rates and the income environment continued to improve.

Of the international crude oil price indices, which significantly influence the financial performance of the INPEX Group, Brent crude, commonly considered a benchmark index, started at US$53.12 per barrel on April 1, 2017 and continued on a downward trend, eventually falling to US$44.82 per barrel in late June over concerns of crude oversupply following reports on the recovery of crude oil production in Libya and Nigeria in addition to observations of high U.S. crude inventory figures and growing U.S. shale oil production.

Thereafter, in July the index rebounded with the easing of oversupply concerns as Nigeria voluntarily capped its production capacity and Saudi Arabia announced cuts in its August export shipments at the Joint OPEC-Non-OPEC Ministerial Monitoring Committee. The index continued to climb to a record high of US$70.53 in late January.

Although Brent crude then fell temporarily to US$62.59 over renewed concerns of excess supply following Iran's production output increase and U.S. oil production hitting a record high in February, the index rose again in March driven by bullish factors such as Saudi Arabia and others conveying their intention to continue their collective production reduction into 2019 while achieving an all-time record in February in terms of the production cut compliance rate. Brent crude ultimately closed out at US$70.27 per barrel on March 31, 2018.

Meanwhile, in Japan, crude oil and petroleum product prices shifted in correlation with international oil prices. The INPEX Group's average crude oil sales price for the year ended March 31, 2018 reflected this shift and rose to US$56.30 per barrel, up US$9.89 from the year ended March 31, 2017.

The foreign exchange market, another important factor that affects the business of our Group, began to trade at ¥111 level against the U.S. dollar. After that, Current Employment Statistics (CES) in early-April was lower than the market forecast and geopolitical risk in Middle East and East Asia was getting higher, the yen appreciated to ¥108 level against the U.S. dollar.

However, because Emmanuel Macron won French Presidential election in May and the concern about political situation in Europe pulled back, the yen depreciated to ¥114 level against the U.S. dollar.

In summer, the yen has shifted from roughly lower ¥109 to lower ¥114 level against the U.S. dollar. After that, European Central Bank (ECB) showed the possibility to change an easy-money policy and the Euro appreciated against the U.S. dollar. At the beginning of September, because of Hurricane in the U.S. and geopolitical risk in Asia, the yen appreciated to ¥107 level against the U.S. dollar. At the end of 2017, the yen depreciated to ¥112 level against the U.S. dollar through the balance-sheet shrinking by Federal Reserve Board (FRB) in September and the rise in interest-rate in December.

However, in 2018, through Treasury Secretary Steven Mnuchin's statement that a weaker dollar is good for U.S. trade, increase in volatility and the stock price crash by the result of CES in February and concern about trade protectionism, the yen appreciated to mid ¥104 level. TTM closed at ¥106.27 to the U.S. dollar which turned out to be ¥5.93 higher than that on March 31, 2017.

Reflecting these situations, the average exchange rate applied for sales transactions for our Group for the year ended March 31, 2018, was ¥111.27 against the U.S. dollar, which is ¥2.67 lower than that for the year ended March 31, 2017.

## PERFORMANCE OVERVIEW

### Net sales

Consolidated net sales for the year ended March 31, 2018, increased by ¥59.3 billion, or 6.8%, to ¥933.7 billion from ¥874.4 billion for the year ended March 31, 2017, due to an increase in crude oil price.

Compared with the year ended March 31, 2017, net sales of crude oil increased by ¥93.1 billion, or 15.1%, to ¥710.3 billion from ¥617.2 billion, and net sales of natural gas decreased by ¥34.5 billion, or 14.2%, to ¥208.1 billion from ¥242.6 billion.

The sales volume of crude oil decreased by 9,325 thousand barrels, or 7.6%, to 112,882 thousand barrels compared with the year ended March 31, 2017. The sales volume of natural gas decreased by 78 billion cubic feet (Bcf), or 22.8%, to 265 Bcf compared with the year ended March 31, 2017. Of this, the sales volume of overseas natural gas decreased by 86 Bcf, or 31.7%, to 186 Bcf compared with the year ended March 31, 2017. The sales volume of domestic natural gas increased by 213 million $m^3$, or 11.1%, to 2,123 million $m^3$ (equivalent to 79 Bcf) compared with the year ended March 31, 2017. The average sales price of overseas crude oil was US$56.30 per barrel, an increase of US$9.89, or 21.3%, compared with the year ended March 31, 2017. The average sales price of overseas natural gas was US$5.04 per thousand cubic feet, a decrease of US$0.15, or 2.9%, compared with the year ended March 31, 2017. The average sales price of domestic natural gas was ¥46.36 per $m^3$, an increase of ¥3.00 per $m^3$, or 6.9%, compared with the year ended March 31, 2017.

The increase of ¥59.3 billion in net sales was mainly derived from the following factors: regarding net sales of crude oil and natural gas, a decrease in sales volume pushing sales down of ¥88.7 billion, an increase in unit sales price contributing ¥128.0 billion to the increase, the depreciation of the Japanese yen against the U.S. dollar contributing ¥19.3 billion to the increase, and an increase in net sales excluding crude oil and natural gas of ¥0.7 billion.

(Millions of yen, %)

| Years ended March 31, | 2017 | 2018 | Change | Ratio |
|---|---|---|---|---|
| Net sales | ¥874,423 | ¥933,702 | ¥ 59,279 | 6.8% |
| Crude oil | 617,194 | 710,278 | 93,084 | 15.1 |
| Natural gas | 242,576 | 208,102 | (34,474) | (14.2) |
| Other | 14,653 | 15,322 | 669 | 4.6 |
| Cost of sales | 453,847 | 498,039 | 44,192 | 9.7 |
| Gross profit | 420,576 | 435,663 | 15,087 | 3.6 |
| Exploration expenses | 6,734 | 1,328 | (5,406) | (80.3) |
| Selling, general and administrative expenses | 57,265 | 58,365 | 1,100 | 1.9 |
| Depreciation and amortization | 20,124 | 18,607 | (1,517) | (7.5) |
| Operating income | 336,453 | 357,363 | 20,910 | 6.2 |
| Other income | 39,090 | 55,267 | 16,177 | 41.4 |
| Interest income | 10,460 | 6,478 | (3,982) | (38.1) |
| Dividend income | 2,803 | 4,778 | 1,975 | 70.5 |
| Gain on sales of investment securities | 5,000 | — | (5,000) | (100.0) |
| Equity in earnings of affiliates | 2,175 | 4,192 | 2,017 | 92.7 |
| Gain on reversal of allowance for recoverable accounts under production sharing | — | 17,528 | 17,528 | — |
| Compensation income | — | 12,626 | 12,626 | — |
| Other | 18,652 | 9,665 | (8,987) | (48.2) |
| Other expenses | 48,018 | 105,330 | 57,312 | 119.4 |
| Interest expense | 5,229 | 7,076 | 1,847 | 35.3 |
| Provision of allowance for doubtful accounts | 8,309 | — | (8,309) | (100.0) |
| Provision for allowance for recoverable accounts under production sharing | 14,375 | — | (14,375) | (100.0) |
| Provision for loss on business | — | 3,264 | 3,264 | — |
| Foreign exchange loss | 3,759 | 10,472 | 6,713 | 178.6 |
| Impairment loss | 6,366 | 79,970 | 73,604 | — |
| Other | 9,980 | 4,548 | (5,432) | (54.4) |
| Income before income taxes | 327,525 | 307,300 | (20,225) | (6.2) |
| Income taxes | 271,393 | 309,400 | 38,007 | 14.0 |
| Net income (loss) | 56,132 | (2,100) | (58,232) | — |
| Net income (loss) attributable to non-controlling interests | 9,964 | (42,463) | (52,427) | — |
| Net income attributable to owners of parent | ¥ 46,168 | ¥ 40,363 | ¥ (5,805) | (12.6)% |

## Cost of sales
Cost of sales for the year ended March 31, 2018, increased by ¥44.2 billion, or 9.7%, to ¥498.0 billion from ¥453.8 billion for the year ended March 31, 2017. This was due to an increase in royalty and others.

## Exploration expenses
Exploration expenses for the year ended March 31, 2018, decreased by ¥5.4 billion, or 80.3%, to ¥1.3 billion from ¥6.7 billion for the year ended March 31, 2017. This was mainly due to a decrease in exploration activities in the Japan and Asia & Oceania region.

## Selling, general and administrative expenses
Selling, general and administrative expenses for the year ended March 31, 2018, increased by ¥1.1 billion, or 1.9%, to ¥58.4 billion from ¥57.3 billion for the year ended March 31, 2017.

## Depreciation and amortization
Depreciation and amortization for the year ended March 31, 2018, decreased by ¥1.5 billion, or 7.5%, to ¥18.6 billion from ¥20.1 billion for the year ended March 31, 2017. The Group records depreciation expenses for production facilities that are covered by concession agreements as cost of sales. In addition, under its accounting treatment of the PSCs, the Group records capital expenditures as "Recoverable accounts under production sharing" instead of capitalizing these costs within tangible fixed assets and depreciating them. Costs that are recovered in any given year based on the terms of the PSCs are included in the cost of sales.

## Operating income
As a result of the above, operating income for the year ended March 31, 2018, increased by ¥20.9 billion, or 6.2%, to ¥357.4 billion from ¥336.5 billion for the year ended March 31, 2017.

## Other income
Other income for the year ended March 31, 2018, increased by ¥16.2 billion, or 41.4%, to ¥55.3 billion from ¥39.1 billion for the year ended March 31, 2017. This was mainly due to recognizing gain on reversal of allowance for recoverable accounts under production sharing.

## Other expenses
Other expenses for the year ended March 31, 2018, increased by ¥57.3 billion, or 119.4%, to ¥105.3 billion from ¥48.0 billion for the year ended March 31, 2017. This was mainly due to an increase in impairment loss.

## Income taxes
Total current income taxes and deferred income taxes for the year ended March 31, 2018, increased by ¥38.0 billion, or 14.0%, to ¥309.4 billion from ¥271.4 billion for the year ended March 31, 2017. The Group pays the majority of its taxes outside Japan. In addition to the high corporate tax rates imposed in a number of regions, the Group is generally unable to deduct expenses incurred in Japan for such taxes. Despite the positive effects attributable to the application of the foreign tax credit system, this situation resulted in a high effective income tax rate.

## Net income (loss) attributable to non-controlling interests
Net loss attributable to non-controlling interests for the year ended March 31, 2018, was ¥42.5 billion. Meanwhile, net income attributable to non-controlling interests for the year ended March 31, 2017, was ¥10.0 billion.

## Net income attributable to owners of parent
As a result of the above, net income attributable to owners of parent for the year ended March 31, 2018, decreased by ¥5.8 billion, or 12.6%, to ¥40.4 billion from ¥46.2 billion for the year ended March 31, 2017.

# FINANCIAL POSITION

Total assets as of March 31, 2018, decreased by ¥56.6 billion, or 1.3%, to ¥4,255.6 billion from ¥4,312.2 billion as of March 31, 2017. Current assets decreased by ¥473.4 billion, or 50.2%, to ¥469.6 billion from ¥943.0 billion due to a decrease in time deposits and others. Fixed assets increased by ¥416.8 billion, or 12.4%, to ¥3,786.0 billion from ¥3,369.2 billion as of March 31, 2017, due to increases in tangible fixed assets, investments and other assets and others.

Meanwhile, total liabilities decreased by ¥7.9 billion, or 0.7%, to ¥1,096.7 billion from ¥1,104.6 billion as of March 31, 2017. Current liabilities increased by ¥11.7 billion, or 3.9%, to ¥309.2 billion from ¥297.5 billion as of March 31, 2017. Long-term liabilities decreased by ¥19.7 billion, or 2.4%, to ¥787.5 billion from ¥807.2 billion as of March 31, 2017.

Net assets decreased by ¥48.7 billion, or 1.5%, to ¥3,158.9 billion from ¥3,207.5 billion as of March 31, 2017. Total shareholders' equity increased by ¥11.4 billion, or 0.4%, to ¥2,568.2 billion from ¥2,556.9 billion as of March 31, 2017. Total accumulated other comprehensive income decreased by ¥37.9 billion, or 9.8%, to ¥348.5 billion from ¥386.3 billion as of March 31, 2017, and non-controlling interests decreased by ¥22.2 billion, or 8.4%, to ¥242.2 billion from ¥264.4 billion as of March 31, 2017.

# INVESTMENT AND FUNDING

**— Investments in upstream oil and gas projects**

Continuous exploration for new reserves of crude oil and natural gas is essential for stable earnings of the Group. The information in this section on upstream oil and gas investments is based on the data reported by project operators relating to exploration expenditures, development expenditures and operating expenses. The Group's expenditure categories are defined as follows:

- Exploration expenditures include the costs of exploratory drilling and any geological or geophysical studies. The costs of local personnel and office operations and related administrative expenses are also included in this category if a project (or contract area) is in the exploration phase.
- Development expenditures include the costs of development drilling and any production facilities.
- Operating expenses include the costs of well operations, maintenance and the supervision of production activities. This category also includes the administrative expenses for the project (or contract area) if it contains a field in active production.
- Discrepancies exist between the standards stipulated in U.S. FASB Accounting Standards Codification Topic 932, "Extractive Industries—Oil and Gas (Topic 932)," and both the Group's definitions of exploration and development expenditures and the standards used in preparing the following tables. The following is a partial list of the discrepancies between the Group's accounting policies and Topic 932.
  - Group expenditures relating to the PSC-governed joint ventures where the Group is not the operator are disclosed on a cash basis rather than an accrual basis as required by Topic 932.
  - The tables below have been prepared based on the cost definitions used by operators in their reporting, which may not be consistent with Topic 932.
  - Topic 932 requires that administrative costs not directly related to exploration and development activities be excluded from exploration and development expenditures, whereas such administrative costs are not necessarily excluded from those expenditures under the Group's accounting policies.

The table below shows the Group's exploration and development costs and other expenditures (excluding capitalized interest costs and asset retirement costs corresponding to asset retirement obligations capitalized under fixed assets) by segment for the years ended March 31, 2017 and 2018.

(Millions of yen)

| Year ended March 31, 2017 | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas | Total |
|---|---|---|---|---|---|---|
| INPEX CORPORATION and Consolidated Subsidiaries | | | | | | |
| Exploration | ¥ 3,322 | ¥ 10,035 | ¥ 195 | ¥ 1,693 | ¥ 917 | ¥ 16,162 |
| Development | 4,352 | 214,650 | 46,029 | 76,719 | 3,174 | 344,924 |
| Subtotal*1 | 7,674 | 224,685 | 46,224 | 78,412 | 4,091 | 361,086 |
| Equity-method Affiliates | | | | | | |
| Exploration | — | — | 148 | 7 | — | 155 |
| Development | — | 475 | 833 | 5,191 | 447 | 6,946 |
| Subtotal | — | 475 | 981 | 5,198 | 447 | 7,101 |
| Other capital expenditures*2 | 10,334 | 233,837 | — | — | — | 244,171 |
| Total*3 | ¥18,008 | ¥458,997 | ¥47,205 | ¥83,610 | ¥4,538 | ¥612,358 |

*1 Figures include an equity-method affiliate of Japan Oil Development Co., Ltd. (JODCO).
*2 Other capital expenditures include the construction costs of domestic gas infrastructure, the Group's share of investment in the Ichthys downstream entity (Ichthys LNG Pty Ltd, an equity-method affiliate) and others.
*3 The amount capitalized for the asset retirement costs (including change in estimates) corresponding to asset retirement obligations for the year ended March 31, 2017 was ¥5,966 million.

| Year ended March 31, 2018 | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas | Total |
|---|---|---|---|---|---|---|
| | | | | | | (Millions of yen) |
| **INPEX CORPORATION and Consolidated Subsidiaries** | | | | | | |
| Exploration | ¥ 99 | ¥ 1,905 | ¥ (244) | ¥ 1,644 | ¥1,561 | ¥ 4,965 |
| Development | 978 | 215,963 | 16,610 | 90,605 | 1,958 | 326,114 |
| Subtotal*1 | 1,077 | 217,868 | 16,366 | 92,249 | 3,519 | 331,079 |
| **Equity-method Affiliates** | | | | | | |
| Exploration | — | — | 210 | 5 | — | 215 |
| Development | — | 2,094 | 1,708 | 610 | 1,091 | 5,503 |
| Subtotal | — | 2,094 | 1,918 | 615 | 1,091 | 5,718 |
| Other capital expenditures*2 | 3,319 | 275,831 | — | — | — | 279,150 |
| Total*3 | ¥4,396 | ¥495,793 | ¥18,284 | ¥92,864 | ¥4,610 | ¥615,947 |

*1 Figures include an equity-method affiliate of Japan Oil Development Co., Ltd. (JODCO).
*2 Other capital expenditures include the construction costs of domestic gas infrastructure, the Group's share of investment in the Ichthys downstream entity (Ichthys LNG Pty Ltd, an equity-method affiliate) and others.
*3 The amount capitalized for the asset retirement costs (including change in estimates) corresponding to asset retirement obligations for the year ended March 31, 2018 was ¥8,209 million.

Total investments for the year ended March 31, 2018, increased by ¥3.6 billion, or 0.6%, to ¥615.9 billion (including ¥5.7 billion for exploration and development by equity-method affiliates) from ¥612.4 billion for the year ended March 31, 2017. This was mainly due to an increase in expenditures in the Asia & Oceania region despite a decrease in expenditures in the Eurasia region.

The table below shows the Group's operating expenses by segment for the years ended March 31, 2017 and 2018.

| Years ended March 31, | 2017 | | 2018 | (Millions of yen, %) |
|---|---|---|---|---|
| **INPEX CORPORATION and Consolidated Subsidiaries** | | | | |
| Japan | ¥ 11,501 | 9.9% | ¥ 12,024 | 11.6% |
| Asia & Oceania | 55,084 | 47.2 | 30,834 | 30.0 |
| Eurasia (Europe & NIS) | 7,809 | 6.7 | 14,567 | 14.2 |
| Middle East & Africa | 40,338 | 34.6 | 43,117 | 41.9 |
| Americas | 1,867 | 1.6 | 2,348 | 2.3 |
| Subtotal | 116,599 | 100.0 | 102,890 | 100.0 |
| **Equity-method Affiliates** | | | | |
| Asia & Oceania | 513 | 5.2 | 792 | 8.1 |
| Eurasia (Europe & NIS) | 85 | 0.9 | 412 | 4.2 |
| Middle East & Africa | 5,312 | 54.0 | 3,918 | 40.0 |
| Americas | 3,925 | 39.9 | 4,685 | 47.7 |
| Subtotal | 9,835 | 100.0 | 9,807 | 100.0 |
| Total | ¥126,434 | —% | ¥112,697 | —% |

### — Expenditures for acquisitions of upstream oil and gas projects

The table below shows the Group's expenditures for acquisitions of upstream oil and gas projects by segment for the years ended March 31, 2017 and 2018. Expenditures in this category include the costs of acquiring mining rights, exploration and development rights, signing bonuses and any tangible fixed assets or recoverable accounts under production sharing gained through the acquisition of interest in upstream oil and gas projects.

| Years ended March 31, | 2017 | | 2018 | (Millions of yen, %) |
|---|---|---|---|---|
| **INPEX CORPORATION and Consolidated Subsidiaries** | | | | |
| Asia & Oceania | ¥— | —% | ¥ — | —% |
| Eurasia (Europe & NIS) | — | — | 6,191 | 6.1 |
| Middle East & Africa | — | — | 94,716 | 93.9 |
| Americas | — | — | — | — |
| Subtotal | — | — | 100,907 | 100.0 |
| **Equity-method Affiliates** | | | | |
| Asia & Oceania | — | — | — | — |
| Eurasia (Europe & NIS) | — | — | — | — |
| Middle East & Africa | — | — | — | — |
| Americas | — | — | — | — |
| Subtotal | — | — | — | — |
| Total | ¥— | —% | ¥100,907 | —% |

## — Analysis of recoverable accounts under production sharing

For upstream projects governed by the PSCs, the Group's share of costs arising during the exploration, development and production phases is capitalized under "Recoverable accounts under production sharing." The following table shows the changes in the balance of "Recoverable accounts under production sharing" during the years ended March 31, 2017 and 2018.

| | (Millions of yen) | |
|---|---|---|
| Years ended March 31, | 2017 | 2018 |
| Balance at beginning of the year | ¥ 727,772 | ¥659,202 |
| Add: Exploration costs | 9,461 | 3,832 |
| Development costs | 39,929 | 16,870 |
| Operating expenses | 55,514 | 37,396 |
| Other | 6,970 | 8,551 |
| Less: Cost recovery—capital expenditures | (79,874) | (53,466) |
| Cost recovery—operating expenditures | (73,414) | (52,019) |
| Other | (27,156) | (31,268) |
| Balance at end of the year | 659,202 | 589,098 |
| Allowance for recoverable accounts under production sharing at end of the year | ¥(120,544) | ¥ (81,625) |

The amount posted as "Cost recovery—operating expenditures" in recoverable accounts under production sharing is greater than that posted as operating expenses. Along with operating expenses, this is because a portion of the exploration and development costs, which are incurred and recoverable within the year, is included in the "Cost recovery—operating expenditures" account.

Exploration costs for the year ended March 31, 2018, decreased compared with the year ended March 31, 2017. This was mainly due to a decrease in exploration expenditures in the Asia & Oceania region.

Development costs for the year ended March 31, 2018, decreased compared with the year ended March 31, 2017. This was mainly due to a decrease in development expenditures in the Asia & Oceania and the Eurasia region.

Operating expenses for the year ended March 31, 2018, decreased compared with the year ended March 31, 2017. This was mainly due to a decrease in operating expenses in the Asia & Oceania region.

Cost recovery for the year ended March 31, 2018, decreased compared with the year ended March 31, 2017. This was mainly due to a decrease in cost recovery in the Asia & Oceania region.

In addition, other deduction was mainly due to a decrease in recoverable accounts under production sharing related to exclusion of subsidiaries from consolidation.

The allowance for recoverable accounts under production sharing as of March 31, 2018, decreased compared with March 31, 2017. This was mainly due to production start-up in certain blocks.

## — Funding sources and liquidity

Oil and gas exploration and development projects, as well as the construction of gas infrastructure, require significant funding. The Group relies on cash flow derived from internal reserves, together with external sources, to procure funds. The Group's basic policy is to utilize internal cash flow and external equity financing to fund exploration projects and to utilize internal cash flow and external loans to fund development projects and the construction of gas infrastructure. The Group currently receives loans from the Japan Bank for International Cooperation, Japanese commercial banks and others. The Japan Oil, Gas and Metals National Corporation (JOGMEC) guarantee system covers these loans. In addition, the Development Bank of Japan and various Japanese commercial banks provide loans for the construction of domestic gas infrastructure.

The Ichthys downstream entity (Ichthys LNG Pty Ltd, an equity-method affiliate), as the borrower, has utilized external loans from export credit agencies and commercial banks for project financing and others throughout the year ended March 31, 2018.

The Group's basic liquidity policy is to maintain sufficient cash on hand at all times to fund expenditures for existing and new oil and gas projects in a timely manner, while also keeping a cushion of liquidity to provide for steep falls in oil and gas prices. In line with this policy, excess cash reserves are invested in low-risk, highly liquid financial instruments. The Group's strategy is to improve capital efficiency over the long term through business expansion while continuing to maintain a sound financial position with sufficient liquidity.

## — Maturities of long-term debt

The aggregate annual maturities of long-term debt subsequent to March 31, 2018, are summarized as follows:

| | (Millions of U.S. dollars and Millions of yen) | | |
|---|---|---|---|
| | Long-term debt denominated in | | Total yen equivalent |
| Years ending March 31, | U.S. dollars | Yen | |
| 2019 | $ 458.6 | ¥ 17,404 | ¥ 66,141 |
| 2020 | 658.6 | 43,352 | 113,343 |
| 2021 | 704.0 | 26,220 | 101,034 |
| 2022 | 339.0 | 24,252 | 60,278 |
| 2023 | 379.0 | 21,966 | 62,242 |
| 2024 and thereafter | 2,214.5 | 55,095 | 290,430 |
| Total | $4,753.7 | ¥188,289 | ¥693,468 |

## — Cash flows

Cash flows for the years ended March 31, 2017 and 2018, are summarized as follows:

| | (Millions of yen) | |
|---|---|---|
| Years ended March 31, | 2017 | 2018 |
| Net cash provided by (used in) operating activities | ¥275,810 | ¥ 278,539 |
| Net cash provided by (used in) investing activities | 53,484 | (351,908) |
| Net cash provided by (used in) financing activities | (65,428) | 34,742 |
| Cash and cash equivalents at end of the period | ¥316,791 | ¥ 276,080 |

### Net cash provided by (used in) operating activities

Net cash provided by operating activities for the year ended March 31, 2018, was ¥278.5 billion, an increase of ¥2.7 billion from ¥275.8 billion for the year ended March 31, 2017. This was mainly due to an increase in impairment loss (non-cash), despite a decrease in income before income taxes and an increase in income taxes paid.

### Net cash provided by (used in) investing activities

Net cash used in investing activities for the year ended March 31, 2018, was ¥351.9 billion. This was mainly due to a decrease in proceeds from time deposits, and an increase in payments for purchases of mining rights. Meanwhile, net cash provided by investing activities for the year ended March 31, 2017, was ¥53.5 billion.

### Net cash provided by (used in) financing activities

Net cash provided by financing activities for the year ended March 31, 2018, was ¥34.7 billion. This was mainly due to increases in proceeds from long-term debt and proceeds from non-controlling interests for additional shares. Meanwhile, net cash used in financing activities for the year ended March 31, 2017, was ¥65.4 billion.

# Consolidated Balance Sheet

INPEX CORPORATION and Consolidated Subsidiaries
March 31, 2018

| ASSETS | Millions of yen 2017 | Millions of yen 2018 | Thousands of U.S. dollars (Note 3) 2018 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents (Note 6) | ¥ 316,791 | ¥ 276,080 | $ 2,597,911 |
| Time deposits (Note 12) | 335,824 | 23 | 216 |
| Accounts receivable—trade (Note 4) | 72,364 | 66,900 | 629,529 |
| Marketable securities (Notes 4 and 5) | 5,503 | — | — |
| Inventories (Note 6) | 30,721 | 32,322 | 304,150 |
| Deferred tax assets (Note 7) | 7,265 | 3,232 | 30,413 |
| Accounts receivable—other (Note 4) | 83,291 | 71,014 | 668,241 |
| Recoverable accounts under production sharing | 47,264 | — | — |
| Other (Note 6) | 68,403 | 40,997 | 385,782 |
| Less allowance for doubtful accounts | (20,764) | (20,985) | (197,469) |
| Less allowance for recoverable accounts under production sharing | (3,702) | — | — |
| Total current assets | 942,960 | 469,583 | 4,418,773 |
| **Tangible fixed assets** | | | |
| Buildings and structures | 399,647 | 405,045 | 3,811,471 |
| Wells | 320,311 | 337,459 | 3,175,487 |
| Machinery, equipment and vehicles | 410,072 | 408,291 | 3,842,016 |
| Land (Note 6) | 19,190 | 19,099 | 179,721 |
| Construction in progress (Note 6) | 1,511,660 | 1,678,743 | 15,796,961 |
| Other | 30,039 | 21,294 | 200,376 |
| | 2,690,919 | 2,869,931 | 27,006,032 |
| Less accumulated depreciation and amortization | (762,321) | (825,311) | (7,766,171) |
| Total tangible fixed assets | 1,928,598 | 2,044,620 | 19,239,861 |
| **Intangible assets** | | | |
| Goodwill (Note 17) | 60,797 | 54,036 | 508,478 |
| Exploration and development rights | 154,557 | 153,169 | 1,441,319 |
| Mining rights | 298,371 | 328,087 | 3,087,297 |
| Other | 7,528 | 6,211 | 58,446 |
| Total intangible assets | 521,253 | 541,503 | 5,095,540 |
| **Investments and other assets** | | | |
| Recoverable accounts under production sharing | 611,938 | 589,098 | 5,543,408 |
| Less allowance for recoverable accounts under production sharing | (116,842) | (81,625) | (768,091) |
| | 495,096 | 507,473 | 4,775,317 |
| Investment securities (Notes 4, 5 and 6) | 246,085 | 367,417 | 3,457,392 |
| Long-term loans receivable (Note 6) | 134,235 | 295,861 | 2,784,050 |
| Deferred tax assets (Note 7) | 25,750 | 20,263 | 190,675 |
| Other (Note 6) | 29,249 | 11,359 | 106,888 |
| Less allowance for doubtful accounts | (8,283) | (849) | (7,989) |
| Less allowance for investments in exploration | (2,769) | (1,665) | (15,668) |
| Total investments and other assets | 919,363 | 1,199,859 | 11,290,665 |
| Total fixed assets | 3,369,214 | 3,785,982 | 35,626,066 |
| Total assets | ¥4,312,174 | ¥4,255,565 | $40,044,839 |

See accompanying notes to consolidated financial statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| LIABILITIES AND NET ASSETS | 2017 | 2018 | 2018 |
| **Current liabilities** | | | |
| Accounts payable—trade | ¥ 51,105 | ¥ 45,676 | $ 429,811 |
| Short-term borrowings and current portion of long-term debt (Notes 4, 6 and 12) | 44,253 | 71,250 | 670,462 |
| Income taxes payable (Note 7) | 45,219 | 17,235 | 162,181 |
| Accounts payable—other | 73,721 | 94,360 | 887,927 |
| Provision for loss on business | 2,920 | 9,887 | 93,037 |
| Provision for exploration projects | 4,479 | 4,006 | 37,696 |
| Accrued bonuses to officers | 63 | 62 | 584 |
| Asset retirement obligations (Note 16) | 4,301 | 408 | 3,839 |
| Other (Note 7) | 71,404 | 66,310 | 623,977 |
| Total current liabilities | 297,465 | 309,194 | 2,909,514 |
| **Long-term liabilities** | | | |
| Long-term debt (Notes 4, 6, 11 and 12) | 643,432 | 627,327 | 5,903,143 |
| Deferred tax liabilities (Note 7) | 45,615 | 35,619 | 335,175 |
| Accrued special repair and maintenance | 331 | 380 | 3,575 |
| Liability for retirement benefits (Note 15) | 5,953 | 5,938 | 55,877 |
| Asset retirement obligations (Note 16) | 104,845 | 111,128 | 1,045,714 |
| Other | 6,990 | 7,110 | 66,905 |
| Total long-term liabilities | 807,166 | 787,502 | 7,410,389 |
| Total liabilities | 1,104,631 | 1,096,696 | 10,319,903 |
| **Net assets** (Note 9) | | | |
| Common stock | 290,810 | 290,810 | 2,736,520 |
| Authorized: 2017 — 3,600,000,001 shares<br>2018 — 3,600,000,001 shares<br>Issued: 2017 — 1,462,323,601 shares<br>2018 — 1,462,323,601 shares | | | |
| Capital surplus | 676,273 | 673,574 | 6,338,327 |
| Retained earnings | 1,595,018 | 1,609,094 | 15,141,564 |
| Less: Treasury stock 2017 — 1,966,500 shares<br>2018 — 1,966,500 shares | (5,248) | (5,248) | (49,384) |
| Total shareholders' equity | 2,556,853 | 2,568,230 | 24,167,027 |
| Unrealized holding gain (loss) on securities | 6,480 | 10,218 | 96,151 |
| Unrealized gain (loss) from hedging instruments | 717 | 25,725 | 242,072 |
| Translation adjustments | 379,120 | 312,507 | 2,940,689 |
| Total accumulated other comprehensive income | 386,317 | 348,450 | 3,278,912 |
| Non-controlling interests | 264,373 | 242,189 | 2,278,997 |
| Total net assets | 3,207,543 | 3,158,869 | 29,724,936 |
| Contingent liabilities (Note 19) | | | |
| Total liabilities and net assets | ¥4,312,174 | ¥4,255,565 | $40,044,839 |

# Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

## Consolidated Statement of Income

INPEX CORPORATION and Consolidated Subsidiaries
For the year ended March 31, 2018

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Net sales | ¥874,423 | ¥933,702 | $8,786,130 |
| Cost of sales | 453,847 | 498,039 | 4,686,544 |
| Gross profit | 420,576 | 435,663 | 4,099,586 |
| Exploration expenses | 6,734 | 1,328 | 12,497 |
| Selling, general and administrative expenses (Notes 13, 15 and 17) | 57,265 | 58,365 | 549,214 |
| Depreciation and amortization | 20,124 | 18,607 | 175,092 |
| Operating income | 336,453 | 357,363 | 3,362,783 |
| Other income | | | |
| Interest income | 10,460 | 6,478 | 60,958 |
| Dividend income | 2,803 | 4,778 | 44,961 |
| Gain on sales of investment securities | 5,000 | — | — |
| Equity in earnings of affiliates | 2,175 | 4,192 | 39,447 |
| Gain on reversal of allowance for recoverable accounts under production sharing | — | 17,528 | 164,938 |
| Compensation income | — | 12,626 | 118,811 |
| Other | 18,652 | 9,665 | 90,947 |
| Total other income | 39,090 | 55,267 | 520,062 |
| Other expenses | | | |
| Interest expense | 5,229 | 7,076 | 66,585 |
| Provision of allowance for doubtful accounts | 8,309 | — | — |
| Provision for allowance for recoverable accounts under production sharing | 14,375 | — | — |
| Provision for loss on business | — | 3,264 | 30,714 |
| Foreign exchange loss | 3,759 | 10,472 | 98,541 |
| Impairment loss (Note 14) | 6,366 | 79,970 | 752,517 |
| Other | 9,980 | 4,548 | 42,797 |
| Total other expenses | 48,018 | 105,330 | 991,154 |
| Income before income taxes | 327,525 | 307,300 | 2,891,691 |
| Income taxes (Note 7) | | | |
| Current | 304,620 | 308,352 | 2,901,590 |
| Deferred | (33,227) | 1,048 | 9,862 |
| Total income taxes | 271,393 | 309,400 | 2,911,452 |
| Net income (loss) | 56,132 | (2,100) | (19,761) |
| Net income (loss) attributable to non-controlling interests | 9,964 | (42,463) | (399,577) |
| Net income attributable to owners of parent | ¥ 46,168 | ¥ 40,363 | $ 379,816 |

## Consolidated Statement of Comprehensive Income

INPEX CORPORATION and Consolidated Subsidiaries
For the year ended March 31, 2018

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Net income (loss) | ¥ 56,132 | ¥ (2,100) | $ (19,761) |
| Other comprehensive income | | | |
| Unrealized holding gain (loss) on securities | 1,522 | 3,711 | 34,921 |
| Translation adjustments | (19,868) | (68,317) | (642,863) |
| Share of other comprehensive income of affiliates accounted for by the equity-method | 6,120 | 24,439 | 229,971 |
| Total other comprehensive income (Note 8) | (12,226) | (40,167) | (377,971) |
| Comprehensive income | 43,906 | (42,267) | (397,732) |
| Total comprehensive income attributable to: | | | |
| Owners of parent | 36,564 | 2,496 | 23,487 |
| Non-controlling interests | ¥ 7,342 | ¥(44,763) | $(421,219) |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

INPEX CORPORATION and Consolidated Subsidiaries

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| For the year ended March 31, 2017 | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of April 1, 2016 | ¥290,810 | ¥676,273 | ¥1,575,136 | ¥(5,248) | ¥2,536,971 |
| Change in ownership interest of parent arising from transactions with non-controlling shareholders | | | | | — |
| Cash dividends paid | | | (26,286) | | (26,286) |
| Net income attributable to owners of parent | | | 46,168 | | 46,168 |
| Purchase of treasury stock | | | | (0) | (0) |
| Net changes in items other than those in shareholders' equity | | | | | |
| Total changes during the period | — | — | 19,882 | (0) | 19,882 |
| Balance as of March 31, 2017 | ¥290,810 | ¥676,273 | ¥1,595,018 | ¥(5,248) | ¥2,556,853 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | Non-controlling interests | Total net assets |
| For the year ended March 31, 2017 | Unrealized holding gain (loss) on securities | Unrealized gain (loss) from hedging instruments | Translation adjustments | Total accumulated other comprehensive income | | |
| Balance as of April 1, 2016 | ¥4,959 | ¥(6,660) | ¥397,622 | ¥395,921 | ¥245,911 | ¥3,178,803 |
| Change in ownership interest of parent arising from transactions with non-controlling shareholders | | | | | | — |
| Cash dividends paid | | | | | | (26,286) |
| Net income attributable to owners of parent | | | | | | 46,168 |
| Purchase of treasury stock | | | | | | (0) |
| Net changes in items other than those in shareholders' equity | 1,521 | 7,377 | (18,502) | (9,604) | 18,462 | 8,858 |
| Total changes during the period | 1,521 | 7,377 | (18,502) | (9,604) | 18,462 | 28,740 |
| Balance as of March 31, 2017 | ¥6,480 | ¥ 717 | ¥379,120 | ¥386,317 | ¥264,373 | ¥3,207,543 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| For the year ended March 31, 2018 | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of April 1, 2017 | ¥290,810 | ¥676,273 | ¥1,595,018 | ¥(5,248) | ¥2,556,853 |
| Change in ownership interest of parent arising from transactions with non-controlling shareholders | | (2,699) | | | (2,699) |
| Cash dividends paid | | | (26,287) | | (26,287) |
| Net income attributable to owners of parent | | | 40,363 | | 40,363 |
| Purchase of treasury stock | | | | | — |
| Net changes in items other than those in shareholders' equity | | | | | |
| Total changes during the period | — | (2,699) | 14,076 | — | 11,377 |
| Balance as of March 31, 2018 | ¥290,810 | ¥673,574 | ¥1,609,094 | ¥(5,248) | ¥2,568,230 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | Non-controlling interests | Total net assets |
| For the year ended March 31, 2018 | Unrealized holding gain (loss) on securities | Unrealized gain (loss) from hedging instruments | Translation adjustments | Total accumulated other comprehensive income | | |
| Balance as of April 1, 2017 | ¥ 6,480 | ¥ 717 | ¥379,120 | ¥386,317 | ¥264,373 | ¥3,207,543 |
| Change in ownership interest of parent arising from transactions with non-controlling shareholders | | | | | | (2,699) |
| Cash dividends paid | | | | | | (26,287) |
| Net income attributable to owners of parent | | | | | | 40,363 |
| Purchase of treasury stock | | | | | | — |
| Net changes in items other than those in shareholders' equity | 3,738 | 25,008 | (66,613) | (37,867) | (22,184) | (60,051) |
| Total changes during the period | 3,738 | 25,008 | (66,613) | (37,867) | (22,184) | (48,674) |
| Balance as of March 31, 2018 | ¥10,218 | ¥25,725 | ¥312,507 | ¥348,450 | ¥242,189 | ¥3,158,869 |

| | Thousands of U.S. dollars (Note 3) | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| For the year ended March 31, 2018 | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of April 1, 2017 | $2,736,520 | $6,363,725 | $15,009,109 | $(49,384) | $24,059,970 |
| Change in ownership interest of parent arising from transactions with non-controlling shareholders | | (25,398) | | | (25,398) |
| Cash dividends paid | | | (247,361) | | (247,361) |
| Net income attributable to owners of parent | | | 379,816 | | 379,816 |
| Purchase of treasury stock | | | | | — |
| Net changes in items other than those in shareholders' equity | | | | | |
| Total changes during the period | — | (25,398) | 132,455 | — | 107,057 |
| Balance as of March 31, 2018 | $2,736,520 | $6,338,327 | $15,141,564 | $(49,384) | $24,167,027 |

| | Thousands of U.S. dollars (Note 3) | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | Non-controlling interests | Total net assets |
| For the year ended March 31, 2018 | Unrealized holding gain (loss) on securities | Unrealized gain (loss) from hedging instruments | Translation adjustments | Total accumulated other comprehensive income | | |
| Balance as of April 1, 2017 | $60,976 | $ 6,747 | $3,567,517 | $3,635,240 | $2,487,748 | $30,182,958 |
| Change in ownership interest of parent arising from transactions with non-controlling shareholders | | | | | | (25,398) |
| Cash dividends paid | | | | | | (247,361) |
| Net income attributable to owners of parent | | | | | | 379,816 |
| Purchase of treasury stock | | | | | | — |
| Net changes in items other than those in shareholders' equity | 35,175 | 235,325 | (626,828) | (356,328) | (208,751) | (565,079) |
| Total changes during the period | 35,175 | 235,325 | (626,828) | (356,328) | (208,751) | (458,022) |
| Balance as of March 31, 2018 | $96,151 | $242,072 | $2,940,689 | $3,278,912 | $2,278,997 | $29,724,936 |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

INPEX CORPORATION and Consolidated Subsidiaries
For the year ended March 31, 2018

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| **Cash flows from operating activities** | | | |
| Income before income taxes | ¥ 327,525 | ¥ 307,300 | $ 2,891,691 |
| Depreciation and amortization | 91,159 | 92,806 | 873,304 |
| Impairment loss | 6,366 | 79,970 | 752,517 |
| Amortization of goodwill | 6,761 | 6,761 | 63,621 |
| Provision for allowance for recoverable accounts under production sharing | 15,934 | (21,190) | (199,398) |
| Provision for exploration projects | (240) | (459) | (4,319) |
| Other provisions | 7,145 | 6,811 | 64,091 |
| Liability for retirement benefits | (1,483) | 19 | 179 |
| Interest and dividend income | (13,263) | (11,256) | (105,919) |
| Interest expense | 5,229 | 7,076 | 66,585 |
| Foreign exchange loss (gain) | 4,896 | 11,048 | 103,962 |
| Equity in losses (earnings) of affiliates | (2,175) | (4,192) | (39,447) |
| Loss (gain) on sales of investment securities | (5,000) | — | — |
| Recovery of recoverable accounts under production sharing (capital expenditures) | 79,874 | 53,466 | 503,115 |
| Recoverable accounts under production sharing (operating expenditures) | (2,823) | 9,632 | 90,637 |
| Accounts receivable—trade | (16,351) | 2,846 | 26,781 |
| Inventories | 5,593 | (2,098) | (19,742) |
| Accounts payable—trade | 4,300 | 20,605 | 193,893 |
| Accounts receivable—other | 11,569 | (287) | (2,701) |
| Accounts payable—other | 4,182 | 12,221 | 114,999 |
| Advances received | 280 | 4,848 | 45,620 |
| Other | 23,312 | 12,468 | 117,324 |
| Subtotal | 552,790 | 588,395 | 5,536,793 |
| Interest and dividends received | 18,773 | 24,460 | 230,168 |
| Interest paid | (2,912) | (5,078) | (47,784) |
| Income taxes paid | (292,841) | (329,238) | (3,098,127) |
| Net cash provided by (used in) operating activities | 275,810 | 278,539 | 2,621,050 |
| **Cash flows from investing activities** | | | |
| Payments for time deposits | (355,238) | (259,990) | (2,446,504) |
| Proceeds from time deposits | 921,781 | 593,900 | 5,588,595 |
| Payments for purchases of tangible fixed assets | (278,360) | (271,324) | (2,553,157) |
| Proceeds from sales of tangible fixed assets | 4,611 | 236 | 2,221 |
| Payments for purchases of intangible assets | (21,954) | (1,365) | (12,845) |
| Payments for purchases of investment securities | (80,225) | (127,785) | (1,202,456) |
| Proceeds from sales and redemptions of investment securities | 10,601 | — | — |
| Investment in recoverable accounts under production sharing (capital expenditures) | (37,326) | (24,135) | (227,110) |
| Decrease (increase) in short-term loans receivable | (1,322) | 51 | 480 |
| Long-term loans made | (133,478) | (172,534) | (1,623,544) |
| Collection of long-term loans receivable | 275 | 274 | 2,578 |
| Payments for purchases of mining rights | — | (100,907) | (949,534) |
| Other | 24,119 | 11,671 | 109,824 |
| Net cash provided by (used in) investing activities | 53,484 | (351,908) | (3,311,452) |
| **Cash flows from financing activities** | | | |
| Increase (decrease) in short-term loans | (96) | 392 | 3,689 |
| Proceeds from long-term debt | 11,760 | 77,612 | 730,328 |
| Repayments of long-term debt | (62,904) | (39,251) | (369,352) |
| Proceeds from non-controlling interests for additional shares | 16,110 | 27,570 | 259,434 |
| Cash dividends paid | (26,287) | (26,291) | (247,398) |
| Cash dividends paid to non-controlling interests | (3,939) | (2,523) | (23,741) |
| Other | (72) | (2,767) | (26,038) |
| Net cash provided by (used in) financing activities | (65,428) | 34,742 | 326,922 |
| Effect of exchange rate changes on cash and cash equivalents | (888) | (2,084) | (19,610) |
| Net increase (decrease) in cash and cash equivalents | 262,978 | (40,711) | (383,090) |
| Cash and cash equivalents at beginning of the period | 53,813 | 316,791 | 2,981,001 |
| Cash and cash equivalents at end of the period | ¥ 316,791 | ¥ 276,080 | $ 2,597,911 |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

INPEX CORPORATION and Consolidated Subsidiaries

## 1. BASIS OF PRESENTATION

INPEX CORPORATION (the "Company") is primarily engaged in the research, exploration, development and production of crude oil and natural gas.

The Company and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with International Financial Reporting Standards, or IFRS or the accounting principles generally accepted in the United States, or U.S. GAAP as adjusted for certain items.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which may differ in certain material respects from IFRS or U.S. GAAP, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The Company has made certain reclassifications of the previous years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2018.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions are eliminated in consolidation. Further, certain companies that do not have significant impact on the consolidated financial statements, are not consolidated or accounted for by the equity-method.

For the 48 companies for which the closing date differed from the consolidated closing date, including but not limited to, INPEX Sahul, Ltd. and INPEX Masela, Ltd., the financial statements for the year ended December 31 were used. However, the necessary adjustments have been made to the financial statements of those companies to reflect any significant transactions made between the Company's closing date and that of the consolidated subsidiaries. For the 11 companies, including but not limited to, Japan Oil Development, Co., Ltd., INPEX Southwest Caspian Sea, Ltd., INPEX North Caspian Sea, Ltd., INPEX Holdings Australia Pty Ltd, and INPEX Ichthys Pty Ltd, the financial statements for the year ended on the consolidated closing date were used, even though their closing date is December 31.

The excess of cost over underlying net assets excluding non-controlling interests at fair value as of the date of acquisition is accounted for as goodwill and amortized over 20 years on a straight-line method.

### (b) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents, including short-term time deposits with original maturities of three months or less.

### (c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The assets and liability accounts of overseas subsidiaries are translated into yen at the exchange rates prevailing at the balance sheet date. The revenue and expense accounts of the overseas subsidiaries are translated into yen at the average rates of exchange during the period. The components of net assets excluding non-controlling interests are translated at their historical exchange rates. The differences arising from the translation are presented as translation adjustments and non-controlling interests in the accompanying consolidated financial statements.

### (d) Securities

In general, securities are classified into three categories: trading, held-to-maturity or other securities. Securities held by the Company and its subsidiaries are all classified as other securities. Other securities with a determinable market value are mainly stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Other securities without a determinable market value are stated at cost determined by the moving-average method. Cost of securities sold is determined by the moving-average method.

### (e) Derivatives

Derivatives are stated at fair value.

### (f) Inventories

Overseas inventories are carried mainly at cost, determined by the average cost method (balance sheet value is carried at the lower of cost or market). Domestic inventories are carried mainly at cost, determined by the moving-average method (balance sheet value is carried at the lower of cost or market).

### (g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an 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 experiencing financial difficulties.

### (h) Recoverable accounts under production sharing and related allowance

Cash investments made by the Company during exploration, development and production phases under a production sharing contract are recorded as "Recoverable accounts under production sharing" so long as they are recoverable under the terms of the relevant contract. When the Company receives crude oil and natural gas in accordance with the relevant contract, an amount corresponding to the purchase costs of the products (i.e., a cost recovery portion of the investments) is released from this account.

Because these investments are recoverable only where commercial oil or gas is discovered, an allowance for recoverable accounts under production sharing is provided for probable losses on investments made during the exploration stage under production sharing contracts arising from the failure to discover commercial oil and gas. In light of this uncertainty, an allowance for recoverable accounts under production sharing is provided for probable losses on development investment individually estimated for each project.

### (i) Allowance for investments in exploration

The allowance for investments in exploration is provided for future potential losses on investments in exploration companies at an estimated amount based on the net assets of the investees.

### (j) Tangible fixed assets (except leased assets)

Depreciation of overseas mining facilities is mainly computed by the unit-of-production method.

For other tangible fixed assets, the straight-line method of depreciation is applied. The useful lives of fixed assets are based on the estimated useful lives of the respective assets.

### (k) Intangible assets (except leased assets)

Exploration and development rights at the exploration stage are fully amortized in the year such rights are acquired, and those at the production stage are amortized by the unit-of-production method.

Mining rights are amortized mainly by the unit-of-production method.

Other intangible assets are amortized mainly by the straight-line method.

Capitalized computer software costs are amortized by the straight-line method over a period of 5 years.

### (l) Leased assets

Leased assets are amortized by the straight-line method over the lease period assuming no residual value.

### (m) Provision for exploration projects

Provision for exploration projects is provided for future expenditures of consolidated subsidiaries at the exploration stage based on a schedule of investments in exploration.

### (n) Accrued bonuses to officers

Accrued bonuses to officers are provided at the expected payment amount for the fiscal year.

### (o) Provision for loss on business

Provision for loss on business is provided for future potential losses on crude oil and natural gas development, production and sales business individually estimated for each project.

### (p) Accrued special repair and maintenance

Accrued special repair and maintenance are provided for planned major repair and maintenance activities on tanks in certain subsidiaries at amounts accumulated through the next activity.

### (q) Accounting for retirement benefits

(Method of attributing expected retirement benefits to proper periods)

When calculating retirement benefit obligations, the benefit formula method is used for attributing expected retirement benefits to periods through March 31, 2018. Because certain subsidiaries are classified as small enterprises, a simplified method (the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date) is applied for the calculation of the retirement benefit obligation for those subsidiaries.

(Method of recognizing for actuarial differences)

Actuarial gains and losses are charged or credited to income as incurred.

### (r) Asset retirement obligations

Asset retirement obligations are recorded by a reasonable estimate of the present value of retirement costs incurred upon termination of the operation and production with respect to oil and gas production facilities, based on the oil and gas contracts or laws and regulations within the countries in which the Company operates or has working interests.

### (s) Hedge accounting

The special treatment is applied to the interest rate swaps that meet certain criteria. For certain equity-method affiliates, the deferred hedge accounting method is adopted.

In addition, derivative transactions are limited to the scope of actual demand, and the Company does not engage in speculative derivative transactions.

### (t) Research and development expenses

Research and development expenses are charged to income as incurred.

### (u) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

### (v) Standards issued but not effective

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan 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)

(Overview)

These are comprehensive accounting standard and guidance about revenue recognition. Revenue is recognized using the following five steps.

1. Identify the contracts with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(Scheduled effective date)

The accounting standard and guidance are scheduled to take effect from the beginning of the year ending March 31, 2022.

(The impact of the adoption of the new accounting standard and guidance)

The impact of the adoption of new accounting standard and guidance on consolidated financial statements is now under evaluation.

## 3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥106.27=US$1.00, the approximate exchange rate in effect as of March 31, 2018. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

# 4. STATUS OF FINANCIAL INSTRUMENTS

## (a) Policy regarding financial instruments

The Company raises funds for oil and gas development and production, construction or expansion of gas infrastructure primarily from cash flow on hand and from bank loans. Oil and gas development projects are primarily funded from long-term loans that the Company has secured from the Japan Bank for International Cooperation, Japanese commercial banks and others. Japan Oil, Gas and Metals National Corporation has provided guarantees for the principal on certain outstanding amounts of the Company's long-term loans. The Development Bank of Japan and Japanese commercial banks and others have provided long-term loans for the construction or expansion of domestic gas infrastructure. The Company generally borrows loans with variable interest rates, while some loans are with a fixed interest rate depending on the nature of each project.

Regarding the financing policy, the Company manages funds mainly from deposits and government bonds, which are considered to be of low-risk and high-liquidity. The Company limits the use of derivative transactions for managing risks of forecasted transactions and portfolio assets, and does not engage in speculative derivative transactions.

## (b) Details of financial instruments, associated risks and risk management

**(Credit risk related to trade receivables)**

Trade receivables such as accounts receivable-trade and accounts receivable-other are comprised mainly from sales of crude oil and natural gas. Main trading partners are national oil companies, major oil companies and others. In line with the criteria for trading and credit exposure management, the Company properly analyzes the status of trading partners for early detection and reduction of default risks.

**(Market price fluctuation risk related to securities)**

For marketable securities and investment securities exposed to market price fluctuation risk, analysis of market values is regularly reported to the Executive Committee. For shares of stock, the Company mainly holds shares of trading partners and others to establish close and smooth relationships for the purpose of maintaining a medium- to long-term stable business. A part of these shares are held for the purpose of investment.

**(Interest rate fluctuation risk related to short-term loans and long-term debt)**

Loans are mainly used to fund oil and natural gas development projects and construction or expansion of domestic gas infrastructure and others. The borrowing period is determined considering the financial prospects of the project and useful lives of the facilities. Loans with variable interest rates are exposed to interest rate fluctuation risk, however, the Company analyzes the impact of interest rate fluctuation at the time of borrowing and on an annual basis, and leverages fixed-rate-loans or interest rate swaps as necessary.

**(Exchange rates fluctuation risk related to assets and liabilities in foreign currencies)**

As most of the Company's business is conducted overseas, the Company is exposed to exchange rate fluctuation risk due to a large portion of monetary assets and liabilities held in foreign currencies such as cash and deposits, accounts receivables and loans required in overseas projects. For this reason, the Company endeavors to reduce exchange rate fluctuation risk by maintaining the position between assets and liabilities in foreign currencies. In addition to planned expenditures in foreign currencies, the Company manages exchange rate fluctuation risk through derivative transactions such as foreign exchange forwards and others as necessary.

**(Management of derivative transactions)**

For the above derivative transactions, the Company follows its internal rules. Market values of these derivatives are regularly reported to the Executive Committee, and the Company only transacts with financial institutions with high credit ratings to reduce counterparty risks for the use of derivatives.

**(Management of liquidity risk related to financing)**

The finance and accounting division controls cash management based on a monthly financing plan prepared by each project division and secures sufficient liquidity on hand to prepare for liquidity risk.

# 5. SECURITIES

(a) Information regarding other securities as of March 31, 2017 and 2018 is as follows:

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2017 | Acquisition cost | Carrying value | Unrealized gain (loss) |
| Securities with carrying values exceeding their acquisition costs | | | |
| Stock | ¥33,905 | ¥40,369 | ¥6,464 |
| Bonds: | | | |
| Corporate bonds | 5,500 | 5,503 | 3 |
| Other | 2,178 | 4,963 | 2,785 |
| Subtotal | 41,583 | 50,835 | 9,252 |
| Securities with acquisition costs exceeding their carrying values | | | |
| Stock | 8,718 | 7,966 | (752) |
| Subtotal | 8,718 | 7,966 | (752) |
| Total | ¥50,301 | ¥58,801 | ¥8,500 |

| March 31, 2018 | Millions of yen Acquisition cost | Carrying value | Unrealized gain (loss) | Thousands of U.S. dollars Acquisition cost | Carrying value | Unrealized gain (loss) |
|---|---|---|---|---|---|---|
| Securities with carrying values exceeding their acquisition costs | | | | | | |
| Stock | ¥26,711 | ¥37,238 | ¥10,527 | $251,351 | $350,410 | $ 99,059 |
| Other | 2,179 | 5,642 | 3,463 | 20,504 | 53,091 | 32,587 |
| Subtotal | 28,890 | 42,880 | 13,990 | 271,855 | 403,501 | 131,646 |
| Securities with acquisition costs exceeding their carrying values | | | | | | |
| Stock | 15,911 | 15,373 | (538) | 149,722 | 144,660 | (5,062) |
| Subtotal | 15,911 | 15,373 | (538) | 149,722 | 144,660 | (5,062) |
| Total | ¥44,801 | ¥58,253 | ¥13,452 | $421,577 | $548,161 | $126,584 |

(b) Information regarding sales of securities classified as other securities for the years ended March 31, 2017 and 2018 is as follows:

| Year ended March 31, 2017 | Millions of yen Proceeds from sales | Gain on sales | Loss on sales |
|---|---|---|---|
| Stock | ¥10,600 | ¥5,000 | ¥— |

| Year ended March 31, 2018 | Millions of yen Proceeds from sales | Gain on sales | Loss on sales | Thousands of U.S. dollars Proceeds from sales | Gain on sales | Loss on sales |
|---|---|---|---|---|---|---|
| Stock | ¥ 0 | ¥— | ¥— | $ 0 | $— | $— |
| Bonds | | | | | | |
| Corporate bonds | 5,500 | — | — | 51,755 | — | — |
| Total | ¥5,500 | ¥— | ¥— | $51,755 | $— | $— |

(c) Components of securities for which it is extremely difficult to determine fair value as of March 31, 2017 and 2018 are summarized as follows:

| March 31, | Millions of yen 2017 | 2018 | Thousands of U.S. dollars 2018 |
|---|---|---|---|
| Unlisted securities | ¥ 29,260 | ¥ 26,732 | $ 251,548 |
| Stocks of subsidiaries and affiliates | 163,527 | 282,432 | 2,657,683 |
| Total | ¥192,787 | ¥309,164 | $2,909,231 |

These securities are not included in (a) as they have no quoted market prices and it is extremely difficult to determine their fair value. For shares of exploration companies, an allowance for investments in exploration is provided at an estimated amount based on the financial position of the investees.

# 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT, ASSETS PLEDGED

(a) Short-term borrowings as of March 31, 2017 and 2018 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2017 | 2018 | 2018 |
| Short-term borrowings from banks and others (Interest rates ranging from 0.635% to 3.700% and 3.696% at March 31, 2017 and 2018) | ¥4,948 | ¥5,109 | $48,076 |

(b) Long-term debt as of March 31, 2017 and 2018 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2017 | 2018 | 2018 |
| Loans from banks and others, due through 2034 (Interest rates ranging from 0.094% to 2.560% and from 0.050% to 3.530% at March 31, 2017 and 2018) | ¥682,737 | ¥693,468 | $6,525,529 |
| Less: Current portion | 39,305 | 66,141 | 622,386 |
| | ¥643,432 | ¥627,327 | $5,903,143 |

(c) Assets pledged as of March 31, 2017 and 2018 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2017 | 2018 | 2018 |
| Cash and cash equivalents | ¥ 222 | ¥ 3,763 | $ 35,410 |
| Inventories | 8,533 | 7,911 | 74,442 |
| Land | 150 | 142 | 1,336 |
| Construction in progress | 1,119,050 | 1,245,156 | 11,716,910 |
| Investment securities | 62,492 | 182,050 | 1,713,089 |
| Long-term loans receivable | 131,261 | 293,789 | 2,764,553 |
| Other | 10,147 | 4,101 | 38,590 |
| Total | ¥1,331,855 | ¥1,736,912 | $16,344,330 |

The above is mainly related to the Ichthys LNG Project Finance, and includes others that are pledged as collateral for liabilities of affiliates.

(d) The aggregate annual maturities of long-term debt subsequent to March 31, 2018 are summarized as follows:

| Years ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2019 | ¥ 66,141 | $ 622,386 |
| 2020 | 113,343 | 1,066,557 |
| 2021 | 101,034 | 950,729 |
| 2022 | 60,278 | 567,216 |
| 2023 | 62,242 | 585,697 |
| 2024 and thereafter | 290,430 | 2,732,944 |
| Total | ¥693,468 | $6,525,529 |

# 7. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to income taxes which, in the aggregate, resulted in a statutory tax rate of approximately 28.2% for the years ended March 31, 2017 and 2018.

(a) The effective tax rates reflected in the consolidated statement of income for the years ended March 31, 2017 and 2018 differ from the statutory tax rate for the following reasons:

| Years ended March 31, | 2017 | 2018 |
|---|---|---|
| Statutory tax rate | 28.2% | 28.2% |
| Effect of: | | |
| Permanently non-taxable expenses such as entertainment expenses | 0.3 | 0.3 |
| Permanently non-taxable income such as dividends income | (2.1) | (0.9) |
| Valuation allowance | 6.3 | 7.4 |
| Foreign taxes | 76.3 | 88.4 |
| Foreign tax credits | (12.6) | (6.2) |
| Adjustment of deducted amounts of foreign taxes | (15.6) | (16.0) |
| Amortization of goodwill | 0.6 | 0.6 |
| Differences of effective tax rates applied to tax effect accounting | 1.8 | (3.6) |
| Other | (0.3) | 2.5 |
| Effective tax rates | 82.9% | 100.7% |

(b) The significant components of deferred tax assets and liabilities as of March 31, 2017 and 2018 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2017 | 2018 | 2018 |
| Deferred tax assets | | | |
| Exploration expenditures | ¥ 58,237 | ¥ 51,583 | $ 485,396 |
| Loss on valuation of investment securities | 2,413 | 2,267 | 21,332 |
| Recoverable accounts under production sharing (foreign taxes) | 7,096 | 4,515 | 42,486 |
| Allowance for investments in exploration | 776 | 466 | 4,385 |
| Foreign taxes payable | 18,727 | 8,562 | 80,568 |
| Net operating loss carry-forwards | 184,483 | 257,674 | 2,424,711 |
| Accumulated depreciation | 37,575 | 34,262 | 322,405 |
| Liability for retirement benefits | 1,960 | 1,980 | 18,632 |
| Provision for loss on business | 825 | 2,769 | 26,056 |
| Translation differences of assets and liabilities denominated in foreign currencies | 15,090 | 10,546 | 99,238 |
| Asset retirement obligations | 14,142 | 13,172 | 123,948 |
| Allowance for doubtful accounts | 6,189 | 6,262 | 58,925 |
| Impairment loss | 15,418 | 36,895 | 347,182 |
| Other | 37,145 | 43,439 | 408,761 |
| Total gross deferred tax assets | 400,076 | 474,392 | 4,464,025 |
| Valuation allowance | (315,192) | (389,951) | (3,669,436) |
| Total deferred tax assets | 84,884 | 84,441 | 794,589 |
| Deferred tax liabilities | | | |
| Foreign taxes | (83,042) | (79,460) | (747,718) |
| Translation differences of assets and liabilities denominated in foreign currencies | (102) | (178) | (1,675) |
| Translation differences due to an application of purchase accounting method | (7,052) | (7,022) | (66,077) |
| Reserve for exploration | (5,509) | (7,300) | (68,693) |
| Unrealized holding gain on securities | (2,023) | (3,264) | (30,714) |
| Other | (3,993) | (3,096) | (29,133) |
| Total deferred tax liabilities | (101,721) | (100,320) | (944,010) |
| Net deferred tax assets (liabilities) | ¥ (16,837) | ¥ (15,879) | $ (149,421) |

## 8. COMPREHENSIVE INCOME

Amount of reclassification adjustments and income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2017 and 2018 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2017 | 2018 | 2018 |
| Unrealized holding gain (loss) on securities | | | |
| Amount recognized during the period | ¥ 8,327 | ¥ 4,952 | $ 46,599 |
| Amount of reclassification adjustments | (5,030) | (0) | (0) |
| Before income tax effect | 3,297 | 4,952 | 46,599 |
| Amount of income tax effect | (1,775) | (1,241) | (11,678) |
| | 1,522 | 3,711 | 34,921 |
| Translation adjustments | | | |
| Amount recognized during the period | (19,878) | (68,262) | (642,345) |
| Amount of reclassification adjustment | 10 | (55) | (518) |
| | (19,868) | (68,317) | (642,863) |
| Share of other comprehensive income of affiliates accounted for by the equity-method | | | |
| Amount recognized during the period | (2,838) | 23,907 | 224,965 |
| Amount of reclassification adjustments | (553) | 391 | 3,679 |
| Adjustment for acquisition cost of assets | 9,511 | 141 | 1,327 |
| | 6,120 | 24,439 | 229,971 |
| Total other comprehensive income | ¥(12,226) | ¥(40,167) | $(377,971) |

## 9. NET ASSETS

The total number of the Company's shares issued consisted of 1,462,323,600 shares of common stock and 1 Class A stock as of March 31, 2018.

Class A stock has no voting rights at the common shareholders' meeting, but the ownership of Class A stock gives its holder a right of veto over certain important matters described below. However, requirements stipulated in the Articles of Incorporation need to be met in cases involving the exercise of the veto over the appointment or removal of directors, the disposition of all or a portion of material assets, and business integration;

- Appointment or removal of Directors
- Disposition of all or a portion of material assets
- Amendments to the Articles of Incorporation relating to the Company's business objectives and granting voting rights to any shares other than the common shares of the Company
- Business integration
- Capital reduction
- Company dissolution

Class A stock shareholder may request the Company to acquire Class A stock. Besides, the Company may also acquire Class A stock by a resolution of the meeting of the Board of Directors in case where Class A stock is transferred to a non-public entity.

The Company conducted a stock split at a ratio of 1:400 of common stock with October 1, 2013 as the effective date, but for Class A stock, no stock split was conducted. The Articles of Incorporation specifies that dividends of Class A stock are equivalent to dividends of a common stock prior to the stock split. The cash dividends of Class A stock for the year ended March 31, 2018 amounted to ¥7,200.

Under the Companies Act of Japan, 10% of the amount to be distributed as dividends from capital surplus (other than capital reserve) and retained earnings (other than legal reserve) should be transferred to capital reserve and legal reserve, respectively, up to the point where total amount of capital reserve and legal reserve equals 25% of the common stock account.

Distributions can be made at any time by a resolution of the meeting of shareholders, or the Board of Directors if certain conditions are met, but neither capital reserve nor legal reserve is available for distributions.

## 10. AMOUNTS PER SHARE

Amounts per share as of March 31, 2017 and 2018 are as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2017 | 2018 | 2018 |
| Net assets excluding non-controlling interests per share | ¥2,015.38 | ¥1,997.24 | $18.79 |
| Cash dividends per share | 18.00 | 18.00 | 0.17 |
| Net income per share | ¥ 31.61 | ¥ 27.64 | $ 0.26 |

Diluted net income per share is not presented because there are no dilutive potential of shares of common stock.

Net assets excluding non-controlling interests per share are computed based on the net assets excluding non-controlling interests and the number of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors together with the interim cash dividends paid.

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the average number of shares of common stock outstanding during the year.

## 11. DERIVATIVE TRANSACTIONS

### (a) Derivatives not subject to hedge accounting

Contract amounts, fair value and valuation gain (loss) regarding derivatives not subject to hedge accounting as of March 31, 2017 and 2018 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| March 31, 2017 | Contract amounts | Due after one year | Fair value | Valuation gain (loss) |
| Foreign exchange forwards* | | | | |
| Sell (CAD)<br>Buy (USD) | ¥39,981 | ¥— | ¥43 | ¥43 |

| | Millions of yen | | | |
|---|---|---|---|---|
| March 31, 2018 | Contract amounts | Due after one year | Fair value | Valuation gain (loss) |
| Foreign exchange forwards* | | | | |
| Sell (CAD)<br>Buy (USD) | ¥42,494 | ¥— | ¥51 | ¥51 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| March 31, 2018 | Contract amounts | Due after one year | Fair value | Valuation gain (loss) |
| Foreign exchange forwards* | | | | |
| Sell (CAD)<br>Buy (USD) | $399,868 | $— | $480 | $480 |

* Fair value is the price obtained from the counterparty financial institutions.

### (b) Derivatives subject to hedge accounting

Contract amounts, fair value and valuation gain (loss) regarding derivatives subject to hedge accounting as of March 31, 2017 and 2018 are as follows:

| | | Millions of yen | | |
|---|---|---|---|---|
| March 31, 2017 | Principal items hedged | Contract amounts | Due after one year | Fair value |
| Interest rate swaps | | | | |
| Payment fixed, receipt fluctuated (Special treatment) | Long-term debt | ¥4,760 | ¥4,760 | * |

| | | Millions of yen | | |
|---|---|---|---|---|
| March 31, 2018 | Principal items hedged | Contract amounts | Due after one year | Fair value |
| Interest rate swaps | | | | |
| Payment fixed, receipt fluctuated (Special treatment) | Long-term debt | ¥4,760 | ¥4,760 | * |

| | | Thousands of U.S. dollars | | |
|---|---|---|---|---|
| March 31, 2018 | Principal items hedged | Contract amounts | Due after one year | Fair value |
| Interest rate swaps | | | | |
| Payment fixed, receipt fluctuated (Special treatment) | Long-term debt | $44,792 | $44,792 | * |

* Fair value of derivatives for which special treatment of interest rate swaps is applied is included in the estimated fair value of the long-term debt as disclosed in Note 12. (a) since the interest rate swap is treated together with long-term debt subject to hedging.

## 12. OTHER FINANCIAL INSTRUMENTS

(a) The carrying value and estimated fair value of financial instruments excluding marketable securities and investment securities which are disclosed in Note 5.(a) and derivatives which are disclosed in Note 11 as of March 31, 2017 and 2018 are as shown below. The following summary also excludes cash and cash equivalents, accounts receivable-trade and long-term loans receivable for which fair values approximate their carrying amounts.

| | Millions of yen | |
|---|---|---|
| March 31, 2017 | Carrying value | Estimated fair value |
| Time deposits | ¥335,824 | ¥335,906 |
| Short-term borrowings and current portion of long-term debt | 44,253 | 43,967 |
| Long-term debt | ¥643,432 | ¥635,083 |

| | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| March 31, 2018 | Carrying value | Estimated fair value | Carrying value | Estimated fair value |
| Time deposits | ¥ 23 | ¥ 23 | $ 216 | $ 216 |
| Short-term borrowings and current portion of long-term debt | 71,250 | 69,588 | 670,462 | 654,823 |
| Long-term debt | ¥627,327 | ¥600,955 | $5,903,143 | $5,654,983 |

(b) For other financial instruments, computation methods of estimated fair value are as shown below.

### (Time deposits)

The fair value of current portion of long-term time deposits included in time deposits, is calculated by applying a discount rate to the total of principal and interest. The discount rate is based on the assumed interest rate if a similar new deposit is entered into. For the other time deposits, the relevant carrying value is used since the item is settled in a short period of time and its market value is almost the same as the carrying value.

### (Short-term borrowings and current portion of long-term debt)

The estimated fair value of current portion of long-term debt is calculated by the same method as long-term debt. For short-term borrowings, the relevant carrying value is used since these items are settled in a short periods of time and its fair value is almost the same as the carrying value.

### (Long-term debt)

The estimated fair value of long-term debt is calculated by applying a discount rate to the total of principal and interest. The discount rate is based on the assumed interest rate if a similar new loan is entered into.

## *13. RESEARCH AND DEVELOPMENT EXPENSES*

Research and development expenses included in general and administrative expenses and cost of sales amounted to ¥1,984 million and ¥978 million ($9,203 thousand) for the years ended March 31, 2017 and 2018, respectively.

## *14. IMPAIRMENT LOSS*

For the year ended March 31, 2017

The Company groups mining area and other assets as a basic unit that generates cash inflows independently of other groups of assets.

Due to impact from deteriorating business environments based on such factors as the drop in oil prices, the Company reduced the respective carrying amounts of the assets listed below to recoverable amounts, posting the reductions as impairment loss.

| Use | Location | Classification | Impairment loss<br>Millions of yen |
|---|---|---|---|
| Assets related to the shale gas project in Canada | British Columbia, Canada | Buildings and structures | ¥ 225 |
| | | Wells | 1,689 |
| | | Machinery, equipment and vehicles | 421 |
| | | Mining rights | 268 |
| | | Other | 27 |
| | | Subtotal | 2,630 |
| Assets related to Yabase Oil Field | Akita City, Akita, etc. | Buildings and structures | 650 |
| | | Wells | 11 |
| | | Machinery, equipment and vehicles | 906 |
| | | Land | 443 |
| | | Other | 17 |
| | | Subtotal | 2,027 |
| Assets related to South Natuna Sea Block B | Republic of Indonesia | Exploration and development rights | 1,703 |
| Other | | | 6 |
| Total | | | ¥6,366 |

The recoverable amount of the assets related to the shale gas project in Canada (Horn River area) is reasonably estimated by discounting the future cash flows at a rate of 8.3%. The recoverable amount of the assets related to South Natuna Sea Block B is estimated at zero. The recoverable assets of the land related to Yabase Oil Field is estimated by the net realizable value of the assets (reasonably adjusted amount based on the valuation for real estate tax purposes), and the others are estimated at zero.

For the year ended March 31, 2018

The Company groups mining area and other assets as a basic unit that generates cash inflows independently of other groups of assets.

In light of the decline in forecasted natural gas prices in the Americas, the recoverble amount of these groups of assets expected to decrease, the Company reduced the respective carrying amounts of the assets listed below to recoverable amounts, posting the reductions as impairment loss.

| Use | Location | Classification | Impairment loss | |
|---|---|---|---|---|
| | | | Millions of yen | Thousands of U.S. dollars |
| Assets related to the shale gas project in Canada | British Columbia, Canada | Buildings and structures | ¥ 2,678 | $ 25,200 |
| | | Wells | 4,021 | 37,838 |
| | | Machinery, equipment and vehicles | 11,391 | 107,189 |
| | | Mining rights | 48,428 | 455,707 |
| | | Other | 9,725 | 91,512 |
| | | Subtotal | 76,243 | 717,446 |
| Other | | | 3,727 | 35,071 |
| Total | | | ¥79,970 | $752,517 |

The recoverable amount of the assets related to the shale gas project in Canada (Horn River, Cordova and Liard areas) is reasonably estimated by discounting the future cash flows at rates ranging from 9.9% to 16.2%.

## 15. RETIREMENT BENEFITS

Retirement benefits for the years ended March 31, 2017 and 2018 are as follows:

### (a) Defined benefit plans

(1) Reconciliation of beginning and ending balances of the retirement benefit obligations (excluding plans included in (3))

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Balance at beginning of the period | ¥20,500 | ¥21,067 | $198,240 |
| Service cost | 1,046 | 1,057 | 9,947 |
| Interest cost | 209 | 215 | 2,023 |
| Actuarial loss (gain) | (9) | 66 | 621 |
| Retirement benefits paid | (679) | (895) | (8,422) |
| Balance at end of the period | ¥21,067 | ¥21,510 | $202,409 |

(2) Reconciliation of beginning and ending balances of plan assets at fair value (excluding plans included in (3))

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Balance at beginning of the period | ¥13,552 | ¥15,596 | $146,758 |
| Expected return on plan assets | 339 | 261 | 2,456 |
| Actuarial gain (loss) | 356 | 100 | 941 |
| Contributions to the plans | 592 | 573 | 5,392 |
| Retirement benefits paid | (378) | (469) | (4,413) |
| Contributions to retirement benefit trust | 1,135 | — | — |
| Balance at end of the period | ¥15,596 | ¥16,061 | $151,134 |

(3) Reconciliation of beginning and ending balances of liability for retirement benefits applying simplified methods

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Balance at beginning of the period | ¥514 | ¥482 | $4,536 |
| Retirement benefit expenses | 62 | 124 | 1,167 |
| Retirement benefits paid | (90) | (33) | (311) |
| Contributions to the plans | (13) | (13) | (122) |
| Other | 9 | (72) | (678) |
| Balance at end of the period | ¥482 | ¥488 | $4,592 |

(4) Reconciliation between retirement benefit obligations and plan assets at fair value and liability for retirement benefits and asset for retirement benefits on the consolidated balance sheet

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Retirement benefit obligations (funded plans) | ¥21,334 | ¥21,760 | $204,761 |
| Plan assets at fair value | (15,810) | (16,263) | (153,034) |
| | 5,524 | 5,497 | 51,727 |
| Retirement benefit obligations (unfunded plans) | 429 | 441 | 4,150 |
| Net liability (asset) on consolidated balance sheet | 5,953 | 5,938 | 55,877 |
| | | | |
| Liability for retirement benefits | 5,953 | 5,938 | 55,877 |
| Net liability (asset) on consolidated balance sheet | ¥ 5,953 | ¥ 5,938 | $ 55,877 |

* Including plans applying simplified methods.

(5) Details of retirement benefit expenses

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Service cost | ¥1,046 | ¥1,057 | $ 9,947 |
| Interest cost | 209 | 215 | 2,023 |
| Expected return on plan assets | (339) | (261) | (2,456) |
| Amortization of actuarial loss (gain) | (365) | (33) | (311) |
| Retirement benefit expenses under simplified methods | 63 | 124 | 1,167 |
| Retirement benefit expenses for defined benefit plans | ¥ 614 | ¥1,102 | $10,370 |

(6) Plan assets (excluding plans applying simplified methods)

| Components of plan assets | 2017 | 2018 |
|---|---|---|
| Stock | 44% | 21% |
| General accounts | 39% | 45% |
| Bonds | 17% | 13% |
| Other | 0% | 21% |
| Total | 100% | 100% |

(7) Basis of measurement for long-term expected return rate on plan assets
The expected long-term return rate on plan assets is determined based on the current and expected future distribution of plan assets and the current and expected future long-tern return rate on various assets of which plan assets are composed.

(8) Basis of the actuarial assumptions

| | 2017 | 2018 |
|---|---|---|
| Discount rate | 1.0% | 1.0% |
| Long-term expected return rate on plan assets | 2.5% | 1.8% |

## (b) Defined contribution plans

The Group's contributions for defined contribution plans amounted to ¥2,302 million and ¥2,413 million ($22,706 thousand) for the years ended March 31, 2017 and 2018, respectively.

## 16. ASSET RETIREMENT OBLIGATIONS

**(a) Asset retirement obligations recognized in the consolidated balance sheet**

The changes in asset retirement obligations for the years ended March 31, 2017 and 2018 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2017 | 2018 | 2018 |
| Balance at beginning of the period | ¥103,063 | ¥109,146 | $1,027,063 |
| New obligations | 15,611 | 3,707 | 34,883 |
| Accretion expenses | 2,592 | 2,641 | 24,852 |
| Obligations settled | (1,504) | (3,394) | (31,938) |
| Change in estimates *1 | (9,336) | 2,929 | 27,562 |
| Other *2 | (1,280) | (3,493) | (32,869) |
| Balance at end of the period | ¥109,146 | ¥111,536 | $1,049,553 |

*1 "Change in estimates" for the years ended March 31, 2017 and 2018 mainly reflects the revised discount rate of certain subsidiaries.
*2 "Other" mainly includes the change due to foreign exchange rates fluctuation.

**(b) Asset retirement obligations other than those recognized in the consolidated balance sheet**

Regarding domestic oil and gas production facilities and gas supply and marketing facilities, the Group has obligations to prevent mine pollution at abandoned well sites after the completion of the production under Mine Safety Act and restore sites to their original condition at the time of business termination in accordance with lease contracts.

Among these facilities, certain domestic oil and gas production facilities are operated complementarily and holistically in connection with the LNG terminal and it is impossible to determine the timing of decommission since it is difficult to formulate reasonable long-term production plan considering the balance between the production and the inflow of LNG at this time. The Group plans to operate domestic gas supply and marketing facilities permanently as highly public infrastructures for energy supply.

The Group also has obligations to decommission mines with respect to certain overseas oil production facilities. However, it is difficult to estimate retirement costs since the information about decommissioning work including the assets subject to the work based on the approval by the government of oil-producing country has not been specified yet.

Therefore, it is impossible to estimate the relevant asset retirement obligations reasonably and the Group does not recognize them in the consolidated balance sheet.

## 17. GOODWILL

The changes in the carrying amount of goodwill for the years ended March 31, 2017 and 2018 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2017 | 2018 | 2018 |
| Balance at beginning of the period | ¥67,558 | ¥60,797 | $572,099 |
| Goodwill acquired during the period | — | — | — |
| Amortization of goodwill | (6,761) | (6,761) | (63,621) |
| Balance at end of the period | ¥60,797 | ¥54,036 | $508,478 |

## 18. LEASES

Future minimum lease payments subsequent to March 31, 2018 for operating lease transactions are summarized as follows:

**As Lessee**

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2019 | ¥ 4,475 | $ 42,110 |
| 2020 and thereafter | 16,187 | 152,319 |
| Total | ¥20,662 | $194,429 |

## 19. CONTINGENT LIABILITIES

As of March 31, 2018, the Company and its consolidated subsidiaries were contingently liable as guarantors of indebtedness of affiliates in the aggregate amount of ¥556,998 million ($5,241,348 thousand).

In connection with the Ichthys LNG Project Finance, the Company and other project participants provide lenders with a guarantee of liabilities during the construction phase based on each participating interest. The portion guaranteed by the Company as of March 31, 2018, was ¥857,531 million ($8,069,361 thousand).

## 20. SEGMENT INFORMATION

### Segment information for the years ended March 31, 2017 and 2018

**(a) Overview of reportable segments**

The reportable segments for the Group's oil and natural gas development activities are composed of individual mining area and others for which separate financial information is available in order for the Board of Directors to make Group management decisions. Since the Group operates oil and natural gas businesses globally, the Group's reportable segments are the mining areas and others by geographical region, categorized in "Japan", "Asia & Oceania" (mainly Indonesia, Australia and East Timor), "Eurasia (Europe & NIS)" (mainly Azerbaijan and Kazakhstan), "Middle East & Africa" (mainly UAE) and "Americas."

The Company produces oil and natural gas in each segment. In addition, the Company conducts marketing activities for petroleum products and others in "Japan" segment.

**(b) Basis of measurement for sales, income (loss), assets and other items by reportable segment**

Accounting policies for the reportable segments are substantially the same as those described in "Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES".

**(c) Information on sales, income (loss), assets and other items by reportable segment**

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2017 | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas | Total | Adjustments*1 | Consolidated*2 |
| Sales to third parties | ¥102,660 | ¥ 218,099 | ¥ 60,192 | ¥482,182 | ¥ 11,290 | ¥ 874,423 | ¥ — | ¥ 874,423 |
| Total sales | 102,660 | 218,099 | 60,192 | 482,182 | 11,290 | 874,423 | — | 874,423 |
| Segment income (loss) | 18,034 | 51,566 | 12,113 | 276,870 | (9,361) | 349,222 | (12,769) | 336,453 |
| Segment assets | 320,853 | 1,997,494 | 600,854 | 446,792 | 137,119 | 3,503,112 | 809,062 | 4,312,174 |
| Other items | | | | | | | | |
| Depreciation and amortization | 16,992 | 21,623 | 10,328 | 29,298 | 11,405 | 89,646 | 1,513 | 91,159 |
| Amortization of goodwill | — | — | — | — | (192) | (192) | 6,953 | 6,761 |
| Investment to affiliates accounted for by the equity-method | 1,966 | 116,619 | 253 | 34,773 | — | 153,611 | 281 | 153,892 |
| Increase of tangible fixed assets and intangible assets | ¥ 15,082 | ¥ 197,958 | ¥ 19,871 | ¥ 42,967 | ¥ 3,329 | ¥ 279,207 | ¥ 574 | ¥ 279,781 |

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2018 | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas | Total | Adjustments*1 | Consolidated*2 |
| Sales to third parties | ¥120,060 | ¥ 148,837 | ¥ 88,597 | ¥565,244 | ¥ 10,964 | ¥ 933,702 | ¥ — | ¥ 933,702 |
| Total sales | 120,060 | 148,837 | 88,597 | 565,244 | 10,964 | 933,702 | — | 933,702 |
| Segment income (loss) | 25,256 | 28,405 | 21,396 | 305,056 | (10,656) | 369,457 | (12,094) | 357,363 |
| Segment assets | 303,133 | 2,343,012 | 622,221 | 511,194 | 57,187 | 3,836,747 | 418,818 | 4,255,565 |
| Other items | | | | | | | | |
| Depreciation and amortization | 17,942 | 14,054 | 9,691 | 36,892 | 12,901 | 91,480 | 1,326 | 92,806 |
| Amortization of goodwill | — | — | — | — | (192) | (192) | 6,953 | 6,761 |
| Investment to affiliates accounted for by the equity-method | 1,980 | 237,959 | 916 | 31,712 | — | 272,567 | 299 | 272,866 |
| Increase of tangible fixed assets and intangible assets | ¥ 2,975 | ¥ 228,824 | ¥ 7,040 | ¥149,217 | ¥ 1,786 | ¥ 389,842 | ¥ 1,065 | ¥ 390,907 |

| | Thousands of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2018 | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas | Total | Adjustments*1 | Consolidated*2 |
| Sales to third parties | $1,129,764 | $ 1,400,555 | $ 833,697 | $5,318,942 | $ 103,172 | $ 8,786,130 | $ — | $ 8,786,130 |
| Total sales | 1,129,764 | 1,400,555 | 833,697 | 5,318,942 | 103,172 | 8,786,130 | — | 8,786,130 |
| Segment income (loss) | 237,659 | 267,291 | 201,336 | 2,870,575 | (100,273) | 3,476,588 | (113,805) | 3,362,783 |
| Segment assets | 2,852,480 | 22,047,727 | 5,855,096 | 4,810,332 | 538,129 | 36,103,764 | 3,941,075 | 40,044,839 |
| Other items | | | | | | | | |
| Depreciation and amortization | 168,834 | 132,248 | 91,192 | 347,153 | 121,399 | 860,826 | 12,478 | 873,304 |
| Amortization of goodwill | — | — | — | — | (1,807) | (1,807) | 65,428 | 63,621 |
| Investment to affiliates accounted for by the equity-method | 18,632 | 2,239,193 | 8,620 | 298,409 | — | 2,564,854 | 2,813 | 2,567,667 |
| Increase of tangible fixed assets and intangible assets | $ 27,995 | $ 2,153,232 | $ 66,246 | $1,404,131 | $ 16,807 | $ 3,668,411 | $ 10,021 | $ 3,678,432 |

*1 Adjustments include elimination of inter-segment transactions and corporate incomes, expenses and assets that are not allocated to a reportable segment.

*2 Segment income is reconciled with operating income on the consolidated statement of income.

**(d) Products and service information**

(Sales to third parties)

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2017 | 2018 | 2018 |
| Crude oil | ¥617,194 | ¥710,278 | $6,683,711 |
| Natural gas (excluding LPG) | 235,794 | 202,054 | 1,901,327 |
| LPG | 6,782 | 6,048 | 56,912 |
| Other | 14,653 | 15,322 | 144,180 |
| Total | ¥874,423 | ¥933,702 | $8,786,130 |

**(e) Geographical information**

(Sales)

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2017 | 2018 | 2018 |
| Japan | ¥409,945 | ¥428,653 | $4,033,622 |
| Asia & Oceania | 387,959 | 405,422 | 3,815,018 |
| Other | 76,519 | 99,627 | 937,490 |
| Total | ¥874,423 | ¥933,702 | $8,786,130 |

(Tangible fixed assets)

| March 31, | Millions of yen 2017 | Millions of yen 2018 | Thousands of U.S. dollars 2018 |
|---|---|---|---|
| Japan | ¥ 282,442 | ¥ 264,549 | $ 2,489,404 |
| Australia | 1,390,187 | 1,537,733 | 14,470,058 |
| Other | 255,969 | 242,338 | 2,280,399 |
| Total | ¥1,928,598 | ¥2,044,620 | $19,239,861 |

**(f) Information by major customer**

(Sales to major customer)

| Years ended March 31, | Millions of yen 2018 | Thousands of U.S. dollars 2018 | Segment |
|---|---|---|---|
| Shell International Eastern Trading Company | ¥107,654 | $1,013,023 | Middle East & Africa |

**(g) Information on impairment loss from fixed assets**

| Years ended March 31, | Millions of yen 2017 | Millions of yen 2018 | Thousands of U.S. dollars 2018 |
|---|---|---|---|
| Japan | ¥2,033 | ¥ 3,631 | $ 34,168 |
| Asia & Oceania | 1,703 | — | — |
| Middle East & Africa | — | 96 | 903 |
| Americas | 2,630 | 76,243 | 717,446 |
| Total | ¥6,366 | ¥79,970 | $752,517 |

# 21. RELATED PARTY TRANSACTIONS

There are the following related party transactions for the years ended March 31, 2017 and 2018.

## (a) Affiliated company

Year ended March 31, 2017

| Name of related party | Location | Capital investment | Nature of operations | Voting interest | Description of the business relationship | Transaction detail | Amounts Millions of yen | Title of account | Amounts Millions of yen |
|---|---|---|---|---|---|---|---|---|---|
| Ichthys LNG Pty Ltd | Western Australia, Australia | $1,617,600 thousand | Transportation, liquefaction and sales of oil and natural gas through pipeline in WA-50-L block in offshore Western Australia | Indirectly 62.25% | Serve the officer concurrently, capital subscription | Loans of funds*1 | ¥ 133,107 | Long-term loans receivable | ¥131,261 |
| | | | | | | Subscription for new shares | 76,562 | — | — |
| | | | | | | Guarantee of liabilities*2 | ¥1,466,099 | — | ¥ — |

Year ended March 31, 2018

| Name of related party | Location | Capital investment | Nature of operations | Voting interest | Description of the business relationship | Transaction detail | Amounts Millions of yen | Amounts Thousands of U.S. dollars | Title of account | Amounts Millions of yen | Amounts Thousands of U.S. dollars |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Ichthys LNG Pty Ltd | Western Australia, Australia | $3,398,480 thousand | Transportation, liquefaction and sales of oil and natural gas through pipeline in WA-50-L block in offshore Western Australia | Indirectly 62.25% | Serve the officer concurrently, capital subscription | Loans of funds*1 | ¥ 172,469 | $ 1,622,932 | Long-term loans receivable | ¥293,789 | $2,764,553 |
| | | | | | | Subscription for new shares | 122,889 | 1,156,385 | — | — | — |
| | | | | | | Guarantee of liabilities*2 | ¥1,390,772 | $13,087,155 | — | ¥ — | $ — |

*1 The Company determines the interest rate on loans of funds based on market interest rates in a reasonable and appropriate manner.

*2 Guarantee of liabilities are for securing loans from financial institutions and for providing lender with a guarantee of liabilities during the construction phase based on each participating interest. In addition, "Amounts" are guaranteed balance by the Company.

## (b) Note related to the parent company or significant affiliated companies

The significant affiliated company for the years ended March 31, 2017 and 2018 is Ichthys LNG Pty Ltd. The summary of its financial information is as follows:

| Years ended March 31, | Millions of yen 2017 | Millions of yen 2018 | Thousands of U.S. dollars 2018 |
|---|---|---|---|
| Total current assets | ¥ 20,516 | ¥ 42,704 | $ 401,844 |
| Total fixed assets | 3,094,713 | 3,479,768 | 32,744,594 |
| Total current liabilities | 61,411 | 357,270 | 3,361,908 |
| Total long-term liabilities | 2,882,514 | 2,788,362 | 26,238,468 |
| Total net assets | 171,304 | 376,840 | 3,546,062 |
| | | | |
| Net sales | — | — | — |
| Net income (loss) before income taxes | (1,882) | (3,032) | (28,531) |
| Net income (loss) | ¥ (1,634) | ¥ (2,688) | $ (25,294) |

# Independent Auditor's Report

Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower, Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.eyjapan.jp

## Independent Auditor's Report

The Board of Directors
INPEX CORPORATION

We have audited the accompanying consolidated financial statements of INPEX CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of INPEX CORPORATION and its consolidated subsidiaries as at March 31, 2018, 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 3.

Ernst & Young ShinNihon L.L.C.

June 26, 2018
Tokyo, Japan

# Subsidiaries and Affiliates

As of March 31, 2018

## *Consolidated Subsidiaries*

| Company name | Issued capital* (Millions of yen) | Voting rights held by us (%) | Main business |
|---|---|---|---|
| INPEX Sahul, Ltd. | 4,600 | 100.00% | Exploration, development, production and sales of oil and natural gas in the JPDA03-12 Block and Bayu-Undan Gas-Condensate Field in the Timor Sea JPDA, Australia and East Timor |
| INPEX Alpha, Ltd. | 8,014 | 100.00% | Exploration, development, production and sales of oil and natural gas in the WA-35-L Block and others, Australia |
| INPEX Tengah, Ltd. | 1,020 | 100.00% | Exploration, development, production and sales of oil and natural gas in the Tengah Block in Offshore East Kalimantan, Indonesia |
| INPEX Browse, Ltd. | 423,190 | 100.00% | Financing for oil and natural gas exploration and development in the WA-285-P Block and others, Australia |
| INPEX Holdings Australia Pty Ltd | 9,681,023 (Thousands of U.S. dollars) | 100.00% | Financing for oil and natural gas exploration, development and construction of the LNG plant for the Ichthys LNG project, Australia |
| INPEX Ichthys Pty Ltd | 804,456 (Thousands of U.S. dollars) | 100.00% | Exploration and development of oil and natural gas in the Ichthys Gas-Condensate Field (WA-50-L/WA-51-L), Australia |
| INPEX Browse E&P Pty Ltd | 358,650 (Thousands of U.S. dollars) | 100.00% | Exploration of oil and natural gas in the WA-285-P Block and others, Australia |
| INPEX Masela, Ltd. | 60,494 | 51.93% | Exploration and development of oil and natural gas in the Masela Block in the Arafura Sea, Indonesia |
| INPEX South Makassar, Ltd. | 1,097 | 100.00% | Exploration, development, production and sales of oil and natural gas in the Sebuku Block in the Makassar Strait, Indonesia |
| INPEX Oil & Gas Australia Pty Ltd | 1,011,000 (Thousands of U.S. dollars) | 100.00% | Exploration and development of oil and natural gas in the Prelude Gas Field (WA-44-L) and others, Australia |
| INPEX Babar Selaru, Ltd. | 1,426 | 51.01% | Exploration of oil and natural gas in the Babar Selaru Block in the eastern sea area, Indonesia |
| INPEX Southwest Caspian Sea, Ltd. | 53,594 | 51.00% | Exploration, development, production and sales of oil in the ACG Oil Fields, Azerbaijan |
| INPEX North Caspian Sea, Ltd. | 76,950 | 51.00% | Exploration, development, production and sales of oil in the Offshore North Caspian Sea Block, Kazakhstan |
| Japan Oil Development Co., Ltd. | 32,067 | 100.00% | Exploration, development, production and sales of oil in the Upper Zakum, Satah and Umm Al Dalkh oil fields, Offshore Abu Dhabi, United Arab Emirates |
| JODCO Lower Zakum Limited | 600,000 (Thousands of U.S. dollars) | 100.00% | Exploration, development, production and sales of oil in the Lower Zakum Oil Field Offshore Abu Dhabi, United Arab Emirates |
| JODCO Onshore Limited | 111 (Thousands of U.S. dollars) | 65.76% | Exploration, development, production and sales of oil in the Block in onshore Abu Dhabi, United Arab Emirates |
| Teikoku Oil (D.R. Congo) Co., Ltd. | 10 | 100.00% | Exploration, development, production and sales of oil in the Offshore D.R. Congo Block |
| INPEX Angola Block 14 Ltd. | 475,600 (Thousands of U.S. dollars) | 100.00% | Investment in oil exploration, development, production and sales in Block 14, Offshore Angola |
| Teikoku Oil & Gas Venezuela, C.A. | 1,620 (Thousands of bolivars) | 100.00% | Investment in exploration, development, production and sale of natural gas in the Copa Macoya Block and exploration, development, production and sale of oil in the Guarico Oriental Block, Bolivarian Republic of Venezuela |
| Teikoku Oil (North America) Co., Ltd. | 19,793 (Thousands of U.S. dollars) | 100.00% | Exploration, development, production and sales of oil and natural gas in the Lucius Oil Field and others, in the U.S. Gulf of Mexico |
| INPEX Canada, Ltd. | 10 | 100.00% | Exploration and development of oil including oil sands in the Joslyn project, Canada |
| INPEX Gas British Columbia Ltd. | 1,043,488 (Thousands of Canadian dollars) | 45.09% | Exploration, development, production and sales of natural gas in the shale gas blocks of the Horn River, Cordova and Liard basins in British Columbia, Canada |
| Teiseki Pipeline Co., Ltd. | 100 | 100.00% | Natural gas transportation, pipeline operation, maintenance and management |

| Company name | Issued capital* (Millions of yen) | Voting rights held by us (%) | Main business |
|---|---|---|---|
| INPEX DLNGPL PTY Ltd | 86,135 (Thousands of AUS dollars) | 100.00% | Investment in Darwin LNG Pty Ltd, which constructs and operates the undersea pipeline and LNG plant connecting the Bayu Undan Gas-Condensate Field and Darwin (Australia) |
| INPEX BTC Pipeline, Ltd. | 63,800 (Thousands of U.S. dollars) | 100.00% | Investment in the pipeline construction and management business that connects Baku (Azerbaijan), Tbilisi (Georgia) and Ceyhan (Turkey) |
| INPEX Trading, Ltd. | 50 | 100.00% | Sales, agency and brokerage of crude oil and market research and sales planning in connection with oil and natural gas sales |
| Saitama Gas Co., Ltd. | 60 | 62.67% | City gas sales |
| INPEX Geothermal Sarulla, Ltd. | 10 | 100.00% | Supply of business capital, etc. to geothermal power project in Sarulla Geothermal Field, Indonesia |
| INPEX FINANCIAL SERVICES SINGAPORE PTE. LTD. | 1,601,000 (Thousands of U.S. dollars) | 100.00% | The Group's intercompany finance operations and support for financial administration of projects |

35 other subsidiaries

## Equity-Method Affiliates

| Company name | Issued capital* (Millions of yen) | Voting rights held by us (%) | Main business |
|---|---|---|---|
| MI Berau B.V. | 588,601 (Thousands of U.S. dollars) | 44.00% | Exploration, development, production and sales of natural gas in the Berau Block and the Tangguh LNG Project, West Papua province, Indonesia |
| PT Medco Geopower Sarulla | 136,815 (Thousands of U.S. dollars) | 49.00% | Supply of business capital, etc. to geothermal power project in Sarulla Geothermal Field, Indonesia |
| Ichthys LNG Pty Ltd | 3,398,480 (Thousands of U.S. dollars) | 62.25% | Engaged in laying the undersea pipeline from the Ichthys Gas-Condensate Field to the Darwin Onshore LNG Plant and constructing the LNG plant, Australia |
| Japan South Sakha Oil Co., Ltd. | 0 | 25.16% | Supply of business capital for exploration, development, production and sales of oil in Zapadno-Yaraktinsky and Bolshetirsky blocks, Russia |
| Angola Japan Oil Co., Ltd. | 8,000 | 19.60% | Exploration, development, production and sales of oil in the Offshore 3/05 Block and 3/05A Block, Angola |
| Angola Block 14 B.V. | 18 (Thousands of euros) | 49.99% | Exploration, development, production and sales of oil in Block 14, Offshore Angola |
| INPEX Offshore North Campos, Ltd. | 6,852 | 37.50% | Financing for oil and natural gas exploration, development, production and sales in the Frade Block in Offshore North Campos, Brazil |

13 other equity-method affiliates

## Subsidiaries of Equity-Method Affiliates

| Company name | Issued capital* | Voting rights held by us (%) | Main business |
|---|---|---|---|
| Frade Japão Petróleo Limitada | 103,051 (Thousands of reais) | 0.00% | Exploration, development, production and sales of oil and natural gas in the Frade Block in Offshore North Campos, Brazil |

2 other subsidiaries of equity-method affiliates

*Rounding off fractions less than the unit.

# Business Risks

The following is a discussion on key items that can be considered potential risk factors relating to the business of INPEX CORPORATION, its subsidiaries and affiliates (the "Group"). From the standpoint of information disclosure to investors and shareholders, we proactively disclose matters that are not necessarily the business risks but that can be considered to have important effects on the investment decisions of investors. The following discussion does not completely cover all business risks relating to the Group's businesses.

Unless stated otherwise, forward-looking statements in the discussion are the judgment of the Group as of June 27, 2018 and are subject to change after such date due to various factors, including changes in social and economic circumstances.

## 1. CHARACTERISTICS OF AND RISKS ASSOCIATED WITH THE OIL AND NATURAL GAS DEVELOPMENT BUSINESS

### (1) Risk of failure in exploration, development or production

Payment of compensation is ordinarily necessary to acquire participating interests. Also, surveying and exploratory drilling expenses (exploration expenses) become necessary at the time of exploration activities for the purpose of discovering resources. When resources are discovered, it is necessary to further invest in substantial development expenses according to various conditions, including the size of the recoverable reserves, development costs and details of agreements with oil-producing countries (including gas-producing countries; hereinafter the same shall apply).

There is, however, no guarantee of discovering resources on a scale that makes development and production feasible. The probability of such discoveries is considerably low despite various technological advances in recent years, and even when resources are discovered the scale of the reserves does not necessarily make commercial production feasible. For this reason, the Group conservatively recognizes expenses related to exploration investment in our consolidated financial statements. The Group maintains financial soundness by booking 100% as expenses in the case of concession agreements (including mining rights awarded in Japan as well as permits, licenses and leases awarded overseas) and by booking 100% of exploration project investment as allowances in the case of production sharing agreements. In addition, if there are impossibilities of recovery of investment in a development project, we also book the corresponding amount of investment in the development project as allowances while considering the recovery possibility of each project.

To increase recoverable reserve and production volumes, the Group plans to always take an interest in promising properties and plans to continue exploration investment. At the same time, we plan to invest in development projects, including the acquisition of interests in discovered undeveloped fields and producing fields, so as to maintain an overall balance between assets at the exploration, development, and production stages.

Although exploration and development (including the acquisition of interests) are necessary to secure the reserves essential to the Group's future sustainable business development, each type of investment involves technological and economic risks, and failed exploration or development could have an adverse effect on the results of the Group's operations.

### (2) Crude oil, condensate, LPG and natural gas reserves

**1) Proved reserves**

INPEX CORPORATION (the "Company") commissioned DeGolyer and MacNaughton, an independent petroleum engineering consultant in the United States, to assess the main proved reserves of the Group of which projects with a significant amount of future development investment might materially affect future performance. An assessment of other projects was undertaken by the Company. The definition of proved reserves is based on the U.S. Securities and Exchange Commission's (SEC) Regulation S-X, Rule 4-10(a), which is widely known among U.S. investors. Regardless of whether the deterministic approach or probabilistic approach is used in evaluation, proved oil and gas reserves are estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions, from the date of evaluation through to the expiration date of the agreement granting operating rights (or in the event of evidence with a reasonable certainty of agreement, extension through to the expiration of the projected extension period). For definition as "proved reserves," operators must have a reasonable degree of certainty that the recovery of hydrocarbons has commenced or that the project will commence within an acceptable period of time. This definition is widely regarded as being conservative. Nevertheless, the strictness of the definition does not imply any guarantee of the production of total reserves during a future production period. In this context, when probabilistic methods are employed, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the sum of estimated proved reserves.

For further details on proved reserves of crude oil, condensate, LPG and natural gas held by the Group, including equity-method, affiliates accounted please see the section "Oil and Gas Reserves and Production Volume" on P. 92.

**2) Probable reserves**

In addition to the assessment of proved reserves based on the SEC standards, the Company commissioned DeGolyer and MacNaughton to assess its probable reserves of which projects with a significant amount of future development investment might materially affect the future performance, similar to proved reserves. An assessment of other projects was undertaken by the Company, based on the Petroleum Resources Management System 2007 (PRMS) published by four organizations: the Society of Petroleum Engineers (SPE), the World Petroleum Congress (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE). Probable reserves, are defined by PRMS guidelines established by the four organizations. In this context, when probabilistic methods are employed, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved and probable reserves. Probable reserves can be upgraded to proved reserves after the addition of new technical data or when uncertainty has been reduced due to clarification of economic conditions or operational conditions. Nevertheless, probable reserves do not offer a guarantee of the production of total reserves during a future production period with the same certainty as proved reserves.

For further details on probable reserves of crude oil, condensate, LPG and natural gas held by the Group, including affiliates accounted for under the equity method, please see the section "Oil and Gas Reserves and Production Volume" on P. 92.

**3) Possibility of changes in reserves**

A reserve evaluation depends on the available geological and engineering data from oil and gas reservoirs, the maturity of development plans and a considerable number of assumptions, factors and variables including economic conditions as of the date such an estimate is made. Reserves may be revised in the future on the basis of geological and engineering data as well as development plans and information relating to changes in economic and other conditions made newly available through progress in production and operations. As a result, there is a possibility that reserves will be restated upwards or downwards. As to the reserves under a PSC, not only production, but also oil and gas prices, investments, recovery of investments due to contractual conditions and remuneration fees may affect the economic entitlement. This may cause reserves to increase or decrease. In this way, the assessed value of reserves could fluctuate because of various data, assumptions and changes of definition.

### (3) In the oil and natural gas development business the period from exploration to sales is highly capital intensive and funds cannot be recovered for a long time

Considerable time and expense is required for exploration activities. Even when promising resources are discovered through exploration, substantial expenses including production facility construction costs, and an extended period of time, are necessary at the development stage leading up to production. For this reason, a long period of 10 years or more is required from the time of exploration and development investment until the recovery of funds through production and sales. In particular, the large-scale LNG projects require a very large amount of investment, and the financing of these projects could be impacted by changes in the economic and financial environment. Following the discovery of resources, a delay in the development schedule or the loss of the economic viability of the properties during the development process leading up to production and the commencement of sales could have an adverse effect on the Group's operational results. Such delays or losses may occur due to changes in the business environment including a delay in the acquisition or modification of government approvals, the occurrence of unanticipated problems related to geological conditions, fluctuations in the price of oil or gas, fluctuations in foreign exchange rates, or escalating prices of equipment and materials. In the case of LNG projects, such delays or losses may occur due to an inability to complete such procedural requirements as FID owing to the lack of any long-term contractual agreement with prospective purchasers with respect to production.

### (4) Operatorship

In the oil and natural gas development business, companies frequently form business partnerships for the purpose of the dispersion of risk and financial burden. In such partnerships, one of the companies becomes the operator, which performs the actual work and bears the responsibility for operations on behalf of the partners. The companies other than the operator, as non-operators, participate in the business by providing a predetermined amount of funds and either carefully examining the exploration and development plan devised and implemented by the operator, or participating in some operations.

The integration of INPEX CORPORATION and Teikoku Oil Co., Ltd., was completed on October 1, 2008. The resultant company possesses abundant operational capabilities thanks to the integration of the former two companies' know-how based on extensive operation experience in exploration, development and production both within Japan and overseas as well as their high level proprietary technologies.

The Group intends to actively pursue operator projects, focusing on the large-scale Ichthys LNG and other projects taking into consideration the effective application of business resources as well as the balance between operator and non-operator projects, based on the Group's technical capability, which has been considerably enhanced by the above-stated business integration. Although the Company lacks operator experience in LNG development projects, it has significant expertise as an operator in the development and production of crude oil and natural gas both in Japan and overseas as well as a wealth of know-how and knowledge accumulated over many years as a participant in LNG and other projects in such countries as Indonesia and Australia. In addition, we believe that by utilizing the services of specialized subcontractors and highly experienced external consultants, a practice similar to foreign oil companies including the majors, it will be possible to execute business appropriately as an operator including LNG projects.

Engaging in project coordination as an operator will contribute to the expansion of opportunities of block and acreage acquisition through enhancement of technical capabilities and greater presence in oil-producing countries and the industry. At the same time, there exist risks such as constraints on the recruitment of personnel who have specialized operational skills and an increase in financial burden. Inability to adequately cope with such risks could have an adverse effect on the Group's results of operations.

### (5) Project partners

In the oil and natural gas development business, as previously mentioned, several companies often engage in joint business for the purpose of dispersion of risk and financial burden. In such cases, the partners generally enter into a joint operating agreement among themselves to decide on the decision-making procedure for execution of the joint business, or to decide on an operator that conducts business on their behalf. A company that is a partner in one property in which the Group is engaged in joint business may become a competitor in the acquisition of other participating interests, even though the relationship with the partner may be good.

In undertaking the joint business, participants in principle bear a financial burden in proportion to their interest share. Any inability by a joint business partner to fulfill this financial burden may adversely affect the project.

### (6) Disaster and accident risks

Oil and natural gas development entails the risk that operational accidents and disasters may occur in the process of exploration, development, production and transportation. Should such an accident, disaster or other such incident occur, there is the risk that costs will be incurred, excluding compensation covered by insurance, due to facility damage, as well as the risk of a major accident or disaster involving loss of life. In addition, a cost burden for recovery or opportunity loss from the interruption of operations could occur. For the domestic natural gas business, the Company has continued to procure as source gas natural gas regasified from imported LNG since January 2010. Furthermore, the Company has procured imported LNG as source gas in connection with its Naoetsu LNG Terminal from August 2013. An inability to procure natural gas regasified from imported LNG and other imported gas as source gas due to troubles concerning suppliers or the Company's Naoetsu LNG Terminal may interfere with the Company's ability to supply to its customers. This could in turn have an adverse effect on the Company's domestic natural gas business.

With regard to environmental problems, there is a possibility of soil contamination, air pollution, and freshwater and seawater pollution. The Group has established a "Health, Safety and Environment Policy," and as a matter of course abides by the environmental laws, regulations, and standards of the countries in which we operate and give due consideration to the environment in the conduct of business, based on our independent guidelines. In the event of an operating accident or disaster which impacts the environment, there is the possibility of incurring a response or cost burden for recovery from that incident, of incurring obligation of payment for procedural costs, compensation or other cost related to the start of civil, criminal or government procedures, or of incurring loss from the interruption of operations. Furthermore, in the event of changes to or the strengthening of the environmental laws, regulations, and standards (including support measures for the promotion of new, renewable energies) of the countries in which we operate, it may be necessary for the Group to devise additional measures with an associated cost burden and it could affect on the financial results of the Group.

Although the Group maintains accident insurance in the natural conduct of its operations, should such an accident or disaster be attributable to willful misconduct or negligence on the part of the Group, the occurrence of a cost burden could have an adverse effect on financial results. Also, such accident or trouble would result in receiving administrative punishment or result in damage to the Group's credibility and reputation as an oil and natural gas development company, and could therefore have an adverse effect on future business activities.

### (7) Climate Change Risk

There is ongoing action to address global climate change, which includes the adoption of the Paris Agreement at the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) and the national policies that support this agreement. Against this backdrop, measures are being pursued worldwide aimed at reducing greenhouse gas (GHG) emissions that cause climate change and global warming.

Pursuant to our position paper, Corporate Position on Climate Change, the INPEX Group is undertaking measures in specific areas such as corporate governance, business strategies, risk and opportunity assessments, the management of emissions, and information disclosure in order to proactively reduce GHG emissions and participate in the transition to low carbon society to achieve the long-term goals of the Paris Agreement.

In the event that individual countries strengthen national climate change policies to help achieve the goals of the Paris Agreement and/or there are changes or additions to environmental laws, regulations, and standards, the INPEX Group would be required to implement additional countermeasures and, in turn, incur cost burdens that could impact the Group's performance.

### (8) Risk in Relation to Mine Abandonment

The Group books in its accounts, as an asset retirement obligation, the estimated present value of costs related to mine abandonment that will become necessary after finishing operation and production in oil and gas production facilities and the like in accordance with agreements with the authorities of oil-producing countries, applicable laws and regulations and the like. If it is later found that the estimated present value of those costs falls short due to a change in the procedures used for mine abandonment, a rise in expenses for procuring drilling materials and equipment or any other reason, the Group will be required to increase the amount of that asset retirement obligation, which could adversely affect the financial condition and results of operations of the Group.

## 2. *EFFECTS OF FLUCTUATIONS IN CRUDE OIL PRICES, NATURAL GAS PRICES, FOREIGN EXCHANGE AND INTEREST RATES ON FINANCIAL RESULTS*

### (1) Effects of fluctuations in crude oil prices and natural gas prices on financial results

A large percentage of crude oil prices and natural gas prices in overseas businesses are determined by international market conditions. In addition, those prices fluctuate significantly in response to the influence of a variety of factors including global or local supply and demand as well as trends and conditions in the global economy and financial markets. The vast majority of these factors are beyond the control of the Company. In this regard, INPEX is not in a position to accurately predict movements in future crude oil and natural gas prices. The Group's sales and profits are subject to the effects of such price fluctuations. Such effects are highly complex and are caused by the following factors.

1) Although a majority of natural gas selling prices in overseas businesses are linked to crude oil prices, they are not in direct proportion to crude oil prices.
2) Because sales and profits are determined on the basis of crude oil prices and natural gas prices at the time sales are booked, actual crude oil transaction prices and the average oil price during the accounting period do not necessarily correspond.

Since the natural gas business in Japan uses domestically produced natural gas and imported LNG as feedstock, changes in the market price for LNG have an effect on feedstock prices and sales prices. There is also the possibility that changes in the competitive environment associated with electric power and gas system reforms will have an effect on natural gas sales prices and sales volumes.

Also, should the recovery of an amount invested in a business asset held by the Group be no longer expected—due to a decrease in profitability associated with changes in the business environment on the basis of changes in future market conditions—since the Group would reduce that business asset's book value to reflect the level of recoverability and the amount of that reduction would be deemed impairment loss, there is the possibility that there could be an adverse effect on the Group's results of operations.

### (2) The effect of fluctuations in exchange rates on financial results

As most of the Group's business consists of E&P conducted overseas, associated revenues (sales) and expenditures (costs) are denominated in foreign currencies (primarily in U.S. dollars), and profit and loss is subject to the effects of the foreign exchange market. In the event of appreciation in the value of the yen, yen-denominated sales and profits decrease. Conversely, in the event of depreciation in the value of the yen, yen-denominated sales and profits increase.

On the other hand, when borrowing necessary funds, the Company borrows in foreign currencies. In the event of appreciation in the value of the yen, a foreign exchange gain on foreign-currency denominated borrowings is recorded as a result of fiscal year-end conversion; in the event of depreciation in the value of the yen, a foreign exchange loss is incurred. For this reason, the exchange risk associated with the above business is diminished and the impact of fluctuations in exchange rates on profit and loss tends to be mitigated. Moreover, although the Company is taking measures to reduce a portion of the risks associated with movements in foreign currency exchange rates, these measures by no means cover all possible risks. As a result, the impact of fluctuations in foreign currency exchange rates cannot be completely eliminated.

### (3) The effect of fluctuations in interest rates on financial results

The Group raises some of the funds necessary for exploration and development operations through borrowing. Much of these borrowings are with variable-rates, long term borrowings based on the U.S. dollar six-month LIBOR rate. Accordingly, the Company's profits are subject to the influence of fluctuations in U.S. dollar interest rates. Furthermore, although the Group has devised methods to reduce a portion of interest rate risk, these methods do not cover all risks of interest rate fluctuation incurred by our Group and do not entirely remove the effect of fluctuations in interest rates.

## 3. OVERSEAS BUSINESS ACTIVITIES AND COUNTRY RISK

The Group engages in a large number of oil and natural gas development projects overseas. Because the Group's business activities, including the acquisition of participating interests, are conducted on the basis of contracts with the governments of oil-producing countries and other entities, steps taken by oil-producing countries to further tighten controls applicable to home country natural resources, suspension of operation due to conflicts and other factors, and other such changes in the political, economic, and social circumstances in such oil-producing countries or neighboring countries (including government involvement, stage of economic development, economic growth rate, capital reinvestment, resource allocation, restriction of economic activities by global community, government control of foreign exchange or foreign remittances, and the balance of international payments), the application of OPEC production ceilings in OPEC member countries and changes in the legal system and taxation system of those countries (including the establishment or abolition of laws or regulations and changes in their interpretation or enforcement) as well as lawsuits could have a significant impact on the Group's business or results unless the impact is compensated by insurance.

Additionally, against the background of rising development costs and other changes in the business environment, the progress of oil and gas projects, and the need to address environmental issues, the governments of oil-producing countries may seek to renegotiate the fiscal conditions including conditions of existing oil contracts related to participating interests. In the event that the fiscal conditions of contracts were to be renegotiated, this could have an adverse effect on the Group's business performance.

## 4. DEPENDENCE ON SPECIFIC GEOGRAPHICAL AREAS OR PROPERTIES

### (1) Production volume

The Group engages in stable production of crude oil and natural gas in the on shore and offshore Abu Dhabi oil fields (United Arab Emirates), the Minami Nagaoka Gas Field (Japan) and so on. Through a process of business integration, the Group had established a wide ranging, diversified yet balanced portfolio that encompassed the Asia-Oceania regions (particularly Japan, Indonesia, and Australia), the Middle East and Africa, Eurasia including Caspian Sea area and the Americas. For the year ended March 31, 2018 however, the Middle East and Africa regions accounted for about 57% and the Asia and Oceania regions accounted for about 20% of the Group's production volume, making up the vast majority of the Group's operations.

Looking ahead, the Group will endeavor to further enhance the balance of its asset portfolio on a regional basis. However, the Group currently relies heavily on specific geographical areas and properties for its production volume, and the occurrence in these properties of an operational problem or difficulty could have an adverse effect on the Group's operational results.

### (2) Contract expiration dates in principal business areas

Expiration dates are customarily stipulated in the agreements related to participating interests, which are prerequisites for the Group's overseas business activities. Should an agreement in which an expiration date is stipulated not be extended, re-extended or renewed, or should the terms and conditions be less favorable (including a reduction in the proportion of the Group's interest) than those existing at the time of extension, re- extension or renewal, there could be an adverse effect on the Group's results. INPEX Group policy to work with our business partners toward the extension, re-extension or renewal of these agreements, should an existing agreement not be extended, re-extended or renewed as a result of agreement negotiations with the national petroleum company of an oil-producing country, or in the event of agreement terms and conditions (including a reduction in the Group's participating interest) that are more disadvantageous than the situation at the time of the extension, re-extension or renewal, this could have an adverse effect on the Group's business or results. Even should the agreements stipulating expiration dates be extended, re-extended or renewed, we anticipate that the remaining recoverable reserves at that time will have decreased due to production developments. Although the Group is striving to acquire interests that can substitute these properties, failure to acquire participating interests in oil and gas fields to fully substitute for these properties could have an adverse effect on the Group's results. In addition, the period for exploration in oil and gas fields currently under exploration is fixed by contracts, and in the case of fields where oil and/or gas reserves are found that are deemed to be commercialized, and the Company is unable to decide on the transition to the development stage by the expiration of the current contract, efforts will be made through negotiations with the government of the oil- or gas-producing country in question to have the periods extended. However, there remains the possibility that such negotiations may not be successfully concluded, in which event the Company would be forced to withdraw from operations in the oil or gas field concerned. Also, as a rule, when there has been a major breach of contract on the part of one party, it is customary for the other party to have the right to cancel the agreement before the expiration date. The agreements for properties in these principal geographical business areas contain similar provisions. The Group has never experienced early cancellation of an agreement due to breach of contract, and we do not anticipate such an occurrence in the future. Nevertheless, a major breach of contract on the part of a party to an agreement could result in cancellation of an agreement before the expiration date.

And in the overseas natural gas development and production activities, in many cases we are selling and supplying gas based on long-term sales and supply contracts in which expiration dates are stipulated. We plan to make efforts with partners to extend or re-extend the expiration date before the deadline stipulated in these contracts. Nevertheless, inability to extend the contracts, or the occurrence of cases in which extension is made but sales and supply volumes are reduced, could have an adverse effect on the Group's business or results.

## 5. PRODUCTION SHARING CONTRACTS

### (1) Details of production sharing contracts

The Group has entered into production sharing contracts with countries including Indonesia and Caspian Sea area, and therefore holds numerous participating interests in those regions.

Production sharing contracts are agreements by which one or several oil companies serve as contractors that undertake at their own expense exploration and development work on behalf of the governments of oil-producing countries or national oil companies and receive production from the projects as cost recovery and compensation. That is to say, when exploration and development work results in the production of oil or natural gas, the contractors recover the exploration and development costs they incurred by means of a share in the production. The remaining production (crude oil and gas) is shared among the oil-producing country or national oil company and the contractors according to fixed allocation ratios. (The contactors' share of production after cost recovery is called "profit oil and gas." On the other hand, in cases when exploration fails and expected production is not realized, the contractors are not to recover their invested funds.

### (2) Accounting treatment of production sharing contracts

When a company in the Group owns participating interests under production sharing contracts, as mentioned above, in the role of contractor it invests technology and funds in the exploration and development of the property, recovers the invested costs from the production produced, and receives a share of the remaining production after recovery of invested costs as compensation.

Costs invested on the basis of production sharing contracts are recorded on the balance sheet as assets for which future recovery is anticipated under the item "Recoverable accounts under production sharing." After the start of production, recovered costs on the basis of those agreements are deducted from this balance sheet item.

As production received under production sharing contracts is divided into the cost recovery portion and the compensation portion, the method of calculating cost of sales is also distinctive. That is to say, the full amount of production received is temporarily charged to cost of sales as the cost of received production, and subsequently the amount of the compensation portion is calculated and this amount is booked as an adjustment item to cost of sales ("Free of charge production allocated"). Consequently, only the cost recovery portion of production after deduction of the compensation portion is booked as cost of sales.

# 6. RELATIONSHIP WITH THE JAPANESE GOVERNMENT

### (1) The Company's relationship with the Japanese government

Although the government of Japan (the Minister of Economy, Trade and Industry) holds 18.96 of the Company's common shares issued (excluding treasury shares) and a Class A Stock as of June 27, 2018, the Company autonomously exercises business judgment as a private corporation. There is no relationship of control, such as through the dispatch of officers or other means between the Company and the Japanese government. Moreover, we believe that no such relationship will develop in the future. Furthermore, there is no concurrent posting or secondment to the Company of officers or employees from the Japanese government.

### (2) Ownership and sale of the Company's shares by the Japanese government (the Minister of Economy, Trade and Industry)

The Ministry of Economy, Trade and Industry (METI) holds 18.96% of the Company's common shares issued (excluding treasury shares). METI succeeded to the shares that had been held by Japan National Oil Corporation (JNOC) following the dissolution of JNOC on April 1, 2005. With regard to the liquidation and disposition of the oil and gas upstream assets owned by JNOC, the Policy Regarding the Disposal of Oil and Gas Development-Related Assets Held by Japan National Oil Corporation (hereinafter, the "Report") was announced on March 18, 2003 by the Japan National Oil Corporation Asset Evaluation and Liquidation Deliberation Subcommittee of the Advisory Committee on Energy and Natural Resources, an advisory body of the Ministry of Economy, Trade and Industry. The Report describes the importance of appropriate timing in selling the shares on the market, taking into consideration enterprise value growth. In addition, METI may, in accordance with the Supplementary Provision Article 13 (1) 2 of the "Special Measures Act for Reconstruction Finance Keeping After the Great East Japan Earthquake" ("the Reconstruction Finance Keeping Act" (provisional translation, the same shall apply hereinafter)) enacted December 2, 2011, sell off the Company's shares in Japan or overseas after examining the possibility of disposal of the said shares based on a review of the holdings from the perspective of energy policy. This could have an impact on the market price of the Company's shares.

METI also holds one share of the Company's Class A Stock. As the holder of a Class A Stock, METI possesses veto rights over certain resolutions of the Company's general shareholders' meetings and meetings of the Board of Directors. For details on the Class A Stock, please refer to "8. CLASS A STOCK" on P. 90.

# 7. TREATMENT OF SHARES OF THE GROUP'S PROJECT COMPANY OWNED BY JAPANESE GOVERNMENT AND JOGMEC

### (1) Treatment of shares of the Group's project company previously owned by Japan National Oil Corporation (JNOC)

In the aforementioned Report, INPEX CORPORATION (prior to the integration with Teikoku Oil; reorganized on October 1, 2008) was identified as a company that should comprise part of a core company, and is expected to play a role in efficient realization of a stable supply of energy for Japan through the involvement by a national flagship company. In response to the Report, the Company (also, the Group since our acquirement of Teikoku Oil on October 1, 2008) has sought to promote efficient realization of a stable supply of energy for Japan while taking advantage of synergy with the efforts of active resource diplomacy on the part of the Japanese government, and has aimed to maximize shareholder value by engaging in highly transparent and efficient business operations.

As a result, with regard to the integration by means of transfer of shares held by JNOC proposed in the Report, INPEX CORPORATION and JNOC concluded the Basic Agreement Concerning the Integration of Assets Held by JNOC into INPEX CORPORATION of February 5, 2004 (hereinafter the "Basic Agreement") and a memorandum of understanding related to Basic Agreement (hereinafter "MOU"). On March 29, 2004, INPEX CORPORATION and JNOC entered into related contracts including the Basic Contract Concerning the Integration of Assets Held by JNOC into INPEX CORPORATION (hereinafter the "Basic Contract"), achieving the agreement on the details including the treatment of the project companies subject to the integration and shareholding ratios.

In 2004 INPEX CORPORATION accomplished the integration of Japan Oil Development Co., Ltd. (JODCO), INPEX Java Ltd. (disposal was completed on September 30, 2010) and INPEX ABK, Ltd. which are three of four companies covered by the Basic Agreement. Although INPEX Southwest Caspian Sea Ltd. (hereinafter "INPEX Southwest Caspian") would become a wholly owned subsidiary of INPEX CORPORATION by means of a share exchange and the procedures were undertaken, the share exchange contract was invalidated owing to failure to accomplish the terms and conditions of the share exchange contract and the planned share exchange was cancelled. Following the dissolution of JNOC on April 1, 2005, the Minister of Economy, Trade and Industry succeeded to the INPEX Southwest Caspian shares held by JNOC. The Company continues to study the possibility to acquire the shares. However, the METI's future treatment of these shares is undecided and, depending on the result of review in accordance with the Reconstruction Finance Keeping Act, acquisition of INPEX Southwest Caspian shares could be unavailable.

The treatment of Sakhalin Oil and Gas Development Co., Ltd. (hereinafter "SODECO"), INPEX Offshore North Campos, Ltd., INPEX North Makassar, Ltd. (liquidation proceedings completed on December 19, 2008), INPEX Masela, Ltd., and INPEX North Caspian Sea, Ltd. was agreed between INPEX CORPORATION and JNOC in the MOU of February 5, 2004. Regarding the treatment of shares of SODECO, refer to the section "(2) Treatment of the shares of Sakhalin Oil and Gas Development (SODECO) owned by the Japanese government" below. With regard to the transfer to INPEX CORPORATION of the shares in the above project companies other than SODECO, it was decided that the shares are to be transferred for cash compensation as soon as prerequisites such as the consent of the oil-producing country and joint venture partners and the possibility of appropriate asset evaluations are in place. However, the transfer of shares held by JNOC in the above companies has not been decided and the shares in the above project companies were succeeded to by the Japan Oil Gas and Metals National Corporation (hereinafter "JOGMEC") on the dissolution of JNOC on April 1, 2005, except shares related to INPEX North Makassar, Ltd., to which the Minister of Economy, Trade and Industry succeeded. JOGMEC states in its "medium-term objective" and "medium-term plan" that the shares succeeded to from JNOC will be disposed of at an appropriate time and in an appropriate manner, but the timing and manner of the disposal for the shares held by JOGMEC have not been decided, and it is possible that the Company will be unable to acquire the shares.

### (2) Treatment of the shares of Sakhalin Oil and Gas Development (SODECO) owned by the Japanese government

The Japanese government (the Minister of Economy, Trade and Industry) owns 50% of the shares of SODECO. SODECO was established in 1995 to engage in an oil and natural gas exploration and development project located on the northeast continental shelf off Sakhalin Island. SODECO owns a 30.0% interest in the Sakhalin-1 Project, of which ExxonMobil of the United States is the operator. In October 2005, Phase 1 of this project started with the goal of advanced production of oil and natural gas. Furthermore, there is a plan for additional development operations (Phase 2) for the purpose of the full-scale production of natural gas. The Company holds 6.08% of SODECO shares issued and outstanding.

In the previously mentioned Report, SODECO, along with INPEX CORPORATION and JODCO, has been identified as a company that should comprise part of a core company in Japan's oil and natural gas upstream industry in the future.

In accordance with the Report, it is assumed that private-sector shareholders, including INPEX CORPORATION, will acquire shares of SODECO issued and outstanding to which the Minister of Economy, Trade and Industry succeeded and that were previously held by JNOC (50.0%). The Company plans to hold a maximum of 33% of the SODECO shares to become its largest shareholder. In the event that the consent of SODECO's joint-venture partners, the relevant Russian government entity, or other parties is necessary for the acquisition of the shares, obtaining the consent is a prerequisite for acquisition. In addition, it will be necessary to reach agreement on the shareholder composition for SODECO, the share transfer price, and other matters.

In the event that the additional acquisition of the SODECO shares is realized, the Group will hold a substantial ownership interest in oil and natural gas assets in Russia, as well as in Asia and Oceania, the Middle East, Caspian Sea area, and other regions, and we expect the acquisition to contribute to the achievement of a more balanced overseas asset portfolio for the Group.

However, at this time it is undecided whether agreement concerning acquisition of the shares with the Minister of Economy, Trade and Industry will be reached as anticipated and will be realized. Also, even in the event that the acquisition is realized, the conditions and time of acquisition are undecided and, depending on the result of review in accordance with the Reconstruction Finance Keeping Act, the acquisition by the Company could be unavailable.

## 8. CLASS A STOCK

### (1) Overview of the classified share

**1) Reason for the introduction**

The Company was established as the holding company through a stock transfer between INPEX CORPORATION and Teikoku Oil Co., Ltd. on April 3, 2006. Along with this, a classified share originally issued by INPEX CORPORATION (prior to the merger) was transferred and at the same time the Company issued a classified share with the same effect (hereinafter the "Class A Stock") to the Minister of Economy, Trade and Industry. The classified share originally issued by INPEX CORPORATION was the minimally required and a highly transparent measure to eliminate the possibility of management control by foreign capital while not unreasonably impeding the efficiency and flexibility of management based on the concept in the Report discussed in the above section 7. "TREATMENT OF SHARES OF THE GROUP'S PROJECT COMPANY OWNED BY JAPANESE GOVERNMENT AND JOGMEC." INPEX CORPORATION is identified as a company that should comprise part of a core company for Japan's oil and gas upstream industry and is expected to play a role in efficient realization of a stable supply of energy for Japan as a national flagship company. On the basis of the concept of the Report, following a speculative acquisition or an attempt at management controlled by foreign capital, Class A Stock is designed and issued to be highly transparent while not unreasonably impeding the efficiency and flexibility of management and to keep the effects of any such speculative acquisition to the necessary minimum. At the same time, Class A Stock maintains the Company's role in the efficient implementation of a stable supply of energy for Japan as a core business, so that management is not conducted in a way contradictory to that role and no negative impact is felt.

**2) Shareholders' meeting resolutions, dividends, distribution of residual assets, and redemption**

Unless otherwise provided by laws or ordinances, the Class A Stock does not have any voting rights at the Company's general shareholders' meetings. With regard to cash dividends paid and the distribution of residual assets, the Company concluded a stock split at a ratio of 1:400 of common stock with October 1, 2013, as the effective date. For Class A Stock (unlisted) no stock split was conducted. The Articles of Incorporation specify that dividends of Class A Stock are equivalent to dividends of a common stock prior to the stock split. The Class A Stock will be redeemed by resolution of the Board of Directors of the Company if the holder of the Class A Stock requests redemption or if the Class A Stock is transferred to a party other than the government of Japan or an independent administrative body that is fully funded by the government of Japan.

**3) Veto rights in the Articles of Incorporation**

The Articles of Incorporation of the Company provide that an approval resolution of the meeting of the holder of the Class A Stock is necessary in addition to resolutions of the Company's general shareholders' meetings and resolutions of meetings of the Board of Directors for the decisions on certain important matters such as the appointment or removal of Directors, disposition of material assets, changes to the Articles of Incorporation, business integration, capital reduction or company dissolution in connection with the business of the Company. Accordingly, the Minister of Economy, Trade and Industry, as the holder of the Class A Stock, has veto rights over these important matters. With regard to the cases in which the Class A Stock veto rights are exercisable, please refer to "4) Criteria for the exercise of veto rights provided in the criteria for the exercise of the Class A Stock holder's voting rights", below.

**4) Criteria for the exercise of veto rights provided in the criteria for the exercise of the Class A Stock holder's voting rights**

Criteria concerning the exercise of the veto rights have been established in a Ministry of Economy, Trade and Industry Notice (No. 220, 2008) (hereinafter the "Notice"). The criteria stipulate the exercise of veto rights only in the following specific cases.

- When resolutions pertaining to appointment or removal of Directors and integration are not voted down and it is judged that the probability is high that the Company will engage in management inconsistent with the role that a core company should perform for efficient realization of a stable supply of energy to Japan.
- With regard to decisions related to the disposal of all or part of significant assets, when resolutions pertaining to disposition of material assets are not voted down and the objects of disposition are oil and natural gas exploration or production rights or rights similar thereto or shares or ownership interest in the Company's subsidiary whose principal assets are said rights and it is judged that the probability is high that the Company will engage in management inconsistent with the role that a core company should perform for efficient realization of a stable supply of energy to Japan.
- When resolutions pertaining to amendments to the Company's Articles of Incorporation relating to changes in the Company's business objectives, reduction in the amount of capital, or dissolution are not voted down and it is judged that the probability is high that the Company will engage in management inconsistent with the role that a core company should perform for efficient realization of a stable supply of energy to Japan.
- When resolutions pertaining to amendments to the Articles of Incorporation granting voting rights to any shares other than the common shares of the Company are not voted down and could have an effect on the exercise of the voting rights of the Class A Stock.

It is provided that the above criteria shall not be limited in the event that the Notice is changed in the light of energy policy.

### (2) Risk in connection with the Class A Stock

Following a speculative acquisition or an attempt at management controlled by foreign capital, Class A Stock is designed and issued to be highly transparent while not unreasonably impeding the efficiency and flexibility of management and to keep the effects of any such speculative acquisition to the necessary minimum. At the same time, Class A Stock maintains the Company's role in the efficient implementation of a stable supply of energy for Japan as a core business, so that management is not conducted in a way contradictory to that role and no negative impact is felt. Nevertheless, the anticipated risks in connection with the Class A Stock include the following.

**1) Possibility of conflict of interest between national policy and the Company and its common shareholders**

It is conceivable that the Minister of Economy, Trade and Industry could exercise the veto rights in accordance with the above criteria provided in the Notice. As the said criteria have been provided from the standpoint of efficient realization of a stable supply of energy to Japan, it is possible that the exercise of the veto rights by the Minister of Economy, Trade and Industry could conflict with the interest of other shareholders who hold the Company's common shares. Also, it is possible that the said criteria could be changed in the light of energy policy.

**2) Impact of the exercise of veto rights on the price of shares of common stock**

As mentioned above, as the holder of the Class A Stock has the veto rights over certain important matters in connection with the business of the Company, the actual exercise of the veto rights over a certain matter could have an impact on the price of the Company's shares of common stock.

**3) Impact on the Company's degree of freedom in business and business judgment**

As the Minister of Economy, Trade and Industry holds the Class A Stock with the previously mentioned veto rights, the Company needs a resolution of the meeting of the holder of the Class A Stock concerning the above matters. For this reason, the Company's degree of freedom in management in those matters could be restricted by the judgment of the Minister of Economy, Trade and Industry. Also, attendant on the need for a resolution of the meeting of the holder of the Class A Stock concerning the above matters, a certain period of time is required for procedures such as the convening and holding of meetings and resolutions and for the processing of formal objections, if necessary.

## 9. CONCURRENTLY SERVING OUTSIDE DIRECTORS

The Board of Directors of the Company is currently composed of 15 members, six of whom are outside directors.

Four of the six outside directors have many years' experience and knowledge of the Company's business and are able to offer objective, professional advice regarding operations. For this reason, they were asked to join the Board of Directors to contribute to the development of the Company's business. Three of the directors concurrently serve as director or advisors of Japan Petroleum Exploration Co., Ltd., Mitsubishi Corporation, Mitsui Oil Exploration Co., Ltd. and JXTG Holdings, Inc. (hereinafter "shareholder corporations"), respectively.

At the same time, however, the shareholder corporations are involved in businesses that overlap with those of the Company. The Company therefore recognizes that it must pay particular attention to corporate governance to avoid conflicts of interest in connection with competition and other matters.

To this end, all Company directors, including the three outside directors described above, are required to sign a written undertaking to carry out their duties as officers of the Company appropriately and with the highest regard for the importance of such matters as their obligations in connection with noncompetitive practices under the Japanese Companies Act, the proper manner for dealing with conflict of interest, and confidentiality.

# Oil and Gas Reserves and Production Volume

## 1. OIL AND GAS RESERVES

### Proved reserves

The following tables list the proved reserves of crude oil, condensate, LPG and natural gas of INPEX CORPORATION, its consolidated subsidiaries and equity-method affiliates (the "Group") on main projects. Disclosure contents for proved reserves are determined in accordance with the rules and regulations of the U.S. Financial Accounting Standards Board (the "FASB"), and are presented in accordance with the Accounting Standards Codification Topic 932 "Extractive Activities —Oil and Gas" ("Topic 932"). The Group's proved reserves as of March 31, 2018, were 2,747 million barrels for crude oil, condensate and LPG, and 5,976 billion cubic feet for natural gas, for a total of 3,857 million boe.

| | Japan | | Asia & Oceania | | Eurasia (Europe & NIS) | | Middle East & Africa | | Americas | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Crude oil (MMbbl) | Gas (Bcf) | Crude oil (MMbbl) | Gas (Bcf) | Crude oil (MMbbl) | Gas (Bcf) | Crude oil (MMbbl) | Gas (Bcf) | Crude oil (MMbbl) | Gas (Bcf) | Crude oil (MMbbl) | Gas (Bcf) |
| **Proved developed and undeveloped reserves** | | | | | | | | | | | | |
| INPEX CORPORATION and Consolidated Subsidiaries | | | | | | | | | | | | |
| As of March 31, 2016 | 18 | 721 | 187 | 4,807 | 184 | 21 | 1,675 | — | 10 | 151 | 2,075 | 5,700 |
| Extensions and discoveries | — | — | 0 | 3 | — | — | — | — | 2 | — | 3 | 3 |
| Acquisitions and sales | — | — | — | — | — | — | — | — | — | — | — | — |
| Revisions of previous estimates | (0) | (15) | 8 | 35 | 44 | 106 | 134 | — | (0) | (37) | 185 | 89 |
| Interim production | (1) | (46) | (11) | (222) | (11) | (2) | (64) | — | (2) | (16) | (89) | (286) |
| As of March 31, 2017 | 17 | 659 | 184 | 4,624 | 217 | 125 | 1,746 | — | 10 | 99 | 2,173 | 5,506 |
| Equity-method affiliates | | | | | | | | | | | | |
| As of March 31, 2016 | — | — | 1 | 325 | — | — | 67 | — | — | — | 69 | 325 |
| Extensions and discoveries | — | — | 1 | 99 | 2 | — | — | — | — | — | 3 | 99 |
| Acquisitions and sales | — | — | — | — | — | — | — | — | — | — | — | — |
| Revisions of previous estimates | — | — | 0 | (19) | — | — | (1) | — | — | — | (1) | (19) |
| Interim production | — | — | (0) | (20) | — | — | (34) | — | — | — | (34) | (20) |
| As of March 31, 2017 | — | — | 2 | 385 | 2 | — | 32 | — | — | — | 36 | 385 |
| **Proved developed and undeveloped reserves** | | | | | | | | | | | | |
| As of March 31, 2017 | 17 | 659 | 186 | 5,008 | 219 | 125 | 1,778 | — | 10 | 99 | 2,210 | 5,891 |
| INPEX CORPORATION and Consolidated Subsidiaries | | | | | | | | | | | | |
| As of March 31, 2017 | 17 | 659 | 184 | 4,624 | 217 | 125 | 1,746 | — | 10 | 99 | 2,173 | 5,506 |
| Extensions and discoveries | — | — | — | — | — | — | — | — | — | — | — | — |
| Acquisitions and sales | — | — | (7) | (53) | — | — | 313 | — | — | — | 307 | (53) |
| Revisions of previous estimates | 4 | 171 | 12 | 202 | 32 | 36 | 292 | — | (3) | (38) | 338 | 371 |
| Interim production | (1) | (51) | (6) | (141) | (14) | (8) | (63) | — | (1) | (41) | (85) | (242) |
| As of March 31, 2018 | 20 | 778 | 183 | 4,632 | 236 | 153 | 2,288 | — | 6 | 19 | 2,732 | 5,583 |
| Equity-method affiliates | | | | | | | | | | | | |
| As of March 31, 2017 | — | — | 2 | 385 | 2 | — | 32 | — | — | — | 36 | 385 |
| Extensions and discoveries | — | — | — | — | — | — | — | — | — | — | — | — |
| Acquisitions and sales | — | — | — | — | 2 | — | — | — | — | — | 2 | — |
| Revisions of previous estimates | — | — | 0 | 26 | 5 | — | 2 | — | 0 | 0 | 8 | 26 |
| Interim production | — | — | (0) | (18) | (1) | — | (29) | — | (0) | (0) | (31) | (18) |
| As of March 31, 2018 | — | — | 2 | 394 | 8 | — | 5 | — | — | — | 15 | 394 |
| **Proved developed and undeveloped reserves** | | | | | | | | | | | | |
| As of March 31, 2018 | 20 | 778 | 186 | 5,026 | 244 | 153 | 2,293 | — | 6 | 19 | 2,747 | 5,976 |
| **Proved developed reserves** | | | | | | | | | | | | |
| INPEX CORPORATION and Consolidated Subsidiaries | | | | | | | | | | | | |
| As of March 31, 2018 | 20 | 778 | 9 | 53 | 223 | 153 | 1,584 | — | 2 | 17 | 1,838 | 1,002 |
| Equity-method affiliates | | | | | | | | | | | | |
| As of March 31, 2018 | — | — | 1 | 259 | 5 | — | 5 | — | — | — | 12 | 259 |
| **Proved undeveloped reserves** | | | | | | | | | | | | |
| INPEX CORPORATION and Consolidated Subsidiaries | | | | | | | | | | | | |
| As of March 31, 2018 | — | — | 174 | 4,578 | 13 | — | 704 | — | 3 | 2 | 894 | 4,581 |
| Equity-method affiliates | | | | | | | | | | | | |
| As of March 31, 2018 | — | — | 1 | 134 | 3 | — | — | — | — | — | 3 | 134 |

Notes: 1. Based on SEC disclosure standards, the Group discloses proved reserves in each country containing 15% or more of its proved reserves. As of March 31, 2018, the Group held proved reserves in Australia of approximately 181 million barrels for crude oil and approximately 4,566 billion cubic feet for natural gas, for a total of approximately 1,034 million boe.
2. Proved reserves (as of March 31, 2018) of the following blocks and fields include the portion attributable to non-controlling interests.
Eurasia: ACG (49%), Kashagan (50%), Americas: Horn River Area (54.91%)
3. MMbbl: Million barrels
4. Bcf: Billion cubic feet
5. Crude oil includes condensate and LPG

### Standardized measure of discounted future net cash flows and their changes relating to proved oil and gas reserves for the year ended March 31, 2018

Disclosure contents for the standardized measure of discounted future net cash flows and their changes relating to proved reserves for the year ended March 31, 2018 are determined in accordance with the rules and regulations of the FASB, and are presented in accordance with Topic 932.

In calculating the standardized measure of discounted future cash inflows, the arithmetic average of oil and gas prices at the first day of each month during the current fiscal year is applied to the estimated annual future production from proved reserves. Future development and production costs are estimated based upon the assumptions of constant oil and gas prices and the continuation of existing economic, operating and regulatory conditions. Future income tax expenses are calculated by applying the year-end statutory tax rates to estimated future pretax cash flows less the tax basis of the properties involved based upon laws and regulations already legislated at year-end.

The discount is computed by applying a prescribed discount rate of 10% to the estimated future net cash flows.

The translation of U.S. dollar amounts into yen amounts is computed by applying the year-end exchange rates (TTM) of ¥112.20 and ¥106.27 to the U.S. dollar as of March 31, 2017 and 2018, respectively.

Since these figures are calculated in accordance with the rules set forth by the FASB, which have the following aspects, they do not represent the fair market value nor the Group's estimation for the present value of the cash flows of reserves of crude oil, condensate, LPG and natural gas.

- No economic value is attributed to potential reserves.
- A prescribed discount rate of 10% is applied.
- Oil and gas prices are subject to constant fluctuations despite the assumptions of constant oil and gas prices of Topic 932.

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| March 31, 2017 | Total | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas |
| **INPEX CORPORATION and Consolidated Subsidiaries** | | | | | | |
| Future cash inflows | ¥14,741,958 | ¥ 807,066 | ¥ 3,461,061 | ¥ 986,542 | ¥ 9,428,165 | ¥ 59,125 |
| Future production and development costs | (6,107,307) | (205,172) | (1,575,183) | (488,261) | (3,808,367) | (30,323) |
| Future income tax expenses | (5,640,443) | (197,443) | (229,642) | (76,036) | (5,137,321) | — |
| Future net cash flows | 2,994,209 | 404,450 | 1,656,236 | 422,245 | 482,477 | 28,801 |
| 10% annual discount for estimated timing of cash flows | (1,703,796) | (223,457) | (906,048) | (212,187) | (355,021) | (7,083) |
| Standardized measure of discounted future net cash flows | 1,290,413 | 180,994 | 750,188 | 210,057 | 127,456 | 21,718 |
| **Equity-method affiliates** | | | | | | |
| Future cash inflows | 436,409 | — | 250,066 | 10,539 | 175,804 | — |
| Future production and development costs | (244,249) | — | (148,254) | (5,956) | (87,531) | (2,507) |
| Future income tax expenses | (132,993) | — | (44,227) | (2,315) | (86,451) | — |
| Future net cash flows | 59,168 | — | 57,584 | 2,268 | 1,823 | (2,507) |
| 10% annual discount for estimated timing of cash flows | (31,947) | — | (32,659) | (291) | 886 | 117 |
| Share of equity-method investees' standardized measure of discounted future net cash flows | 27,220 | — | 24,925 | 1,977 | 2,709 | (2,391) |
| Total consolidated and equity-method affiliates in standardized measure of discounted future net cash flows | ¥ 1,317,633 | ¥ 180,994 | ¥ 775,113 | ¥ 212,034 | ¥ 130,165 | ¥ 19,327 |

Note: Reserves of the following blocks and fields include the portion attributable to non-controlling interests.
Eurasia (Europe & NIS): ACG (49%), Kashagan (55%)/Americas: Copa Macoya (30%), Horn River Area (54.91%)

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| March 31, 2018 | Total | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas |
| **INPEX CORPORATION and Consolidated Subsidiaries** | | | | | | |
| Future cash inflows | ¥20,320,892 | ¥ 956,171 | ¥ 4,159,906 | ¥1,288,985 | ¥13,878,650 | ¥ 37,181 |
| Future production and development costs | (7,498,996) | (240,311) | (1,283,385) | (555,837) | (5,392,276) | (27,186) |
| Future income tax expenses | (8,673,758) | (231,110) | (645,491) | (125,913) | (7,671,244) | — |
| Future net cash flows | 4,148,139 | 484,749 | 2,231,030 | 607,235 | 815,130 | 9,995 |
| 10% annual discount for estimated timing of cash flows | (2,262,996) | (270,112) | (1,087,087) | (336,086) | (567,643) | (2,068) |
| Standardized measure of discounted future net cash flows | 1,885,143 | 214,637 | 1,143,943 | 271,149 | 247,487 | 7,926 |
| **Equity-method affiliates** | | | | | | |
| Future cash inflows | 322,705 | — | 252,543 | 39,268 | 30,894 | — |
| Future production and development costs | (179,806) | — | (134,182) | (13,809) | (28,863) | (2,952) |
| Future income tax expenses | (68,556) | — | (51,100) | (14,590) | (2,866) | — |
| Future net cash flows | 74,343 | — | 67,260 | 10,869 | (834) | (2,952) |
| 10% annual discount for estimated timing of cash flows | (40,500) | — | (38,494) | (3,720) | 1,576 | 137 |
| Share of equity-method investees' standardized measure of discounted future net cash flows | 33,842 | — | 28,766 | 7,149 | 742 | (2,815) |
| Total consolidated and equity-method affiliates in standardized measure of discounted future net cash flows | ¥ 1,918,985 | ¥ 214,637 | ¥ 1,172,709 | ¥ 278,298 | ¥ 248,229 | ¥ 5,112 |

Note: Reserves of the following blocks and fields include the portion attributable to non-controlling interests.
Eurasia (Europe & NIS): ACG (49%), Kashagan (50%)/Americas: Copa Macoya (30%), Horn River Area (54.91%)

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas | Equity-method affiliates |
| **INPEX CORPORATION and Consolidated Subsidiaries** | | | | | | | |
| Standardized measure at beginning of the period As of April 1, 2017 | ¥1,317,633 | ¥180,994 | ¥ 750,188 | ¥210,057 | ¥ 127,456 | ¥ 21,718 | ¥ 27,220 |
| Changes resulting from: | | | | | | | |
| Sales and transfers of oil and gas produced, net of production costs | (458,509) | (27,845) | (79,344) | (39,440) | (204,388) | (7,551) | (99,941) |
| Net changes in oil and gas prices and production costs | 918,434 | 14,525 | 509,034 | 82,558 | 316,359 | 1,558 | (5,600) |
| Development costs incurred | 245,009 | 239 | 152,211 | 13,845 | 58,416 | 2,158 | 18,140 |
| Changes in estimated future development costs | (166,177) | 776 | (87,391) | (12,651) | (62,085) | (949) | (3,878) |
| Revisions of previous quantity estimates | 424,414 | 51,009 | 41,026 | 15,164 | 296,171 | (10,503) | 31,546 |
| Accretion of discount | 133,053 | 15,246 | 81,497 | 19,381 | 13,059 | 1,675 | 2,195 |
| Net change in income taxes | (472,813) | (10,740) | (168,784) | (8,673) | (350,749) | 535 | 65,598 |
| Extensions, discoveries and improved recoveries | 45,488 | — | (14,495) | — | 59,983 | — | — |
| Other | (67,548) | (9,566) | (40,000) | (9,093) | (6,736) | (714) | (1,439) |
| Standardized measure at end of the period As of March 31, 2018 | ¥1,918,985 | ¥214,637 | ¥1,143,943 | ¥271,149 | ¥ 247,487 | ¥ 7,926 | ¥ 33,842 |

Note: Reserves of the following blocks and fields include the portion attributable to non-controlling interests.
Eurasia (Europe & NIS): ACG (49%), Kashagan (50%)/Americas: Copa Macoya (30%), Horn River Area (54.91%)

### Probable reserves as of March 31, 2018

The following table lists the probable reserves of crude oil, condensate, LPG and natural gas of the Group on main projects. Our probable reserves as of March 31, 2018, were 583 million barrels for crude oil, condensate and LPG, and 4,807 billion cubic feet for natural gas, for a total of 1,443 million boe.

| March 31, 2018 | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas | Subtotal | Interest in reserves held by equity-method affiliates | Total |
|---|---|---|---|---|---|---|---|---|
| **Probable reserves** | | | | | | | | |
| Crude oil, condensate and LPG (MMbbl) | 1 | 124 | 166 | 285 | 2 | 579 | 4 | 583 |
| Natural gas (Bcf) | 44 | 4,729 | 15 | — | 2 | 4,789 | 18 | 4,807 |

Notes: 1. MMbbl: Million barrels
2. Bcf: Billion cubic feet
3. Oil and gas reserves are rounded to the nearest whole number.

## 2. OIL AND GAS PRODUCTION

The following tables list average daily production for crude oil, natural gas, and the total of crude oil and natural gas by region. The proportional interests in production by the equity-method affiliates are not broken down by geographical regions.

The Group's production for the year ended March 31, 2018, was 329.1 thousand barrels per day for crude oil, condensate and LPG, and 649.7 million cubic feet per day for natural gas, for a total of 449.9 thousand boed.

| Years ended March 31, | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| **Crude oil, condensate and LPG** (Mbbld): | | | | | | |
| Japan | 3.9 | 3.6 | 3.2 | 3.2 | 3.5 | 3.7 |
| Asia & Oceania | 58.0 | 45.8 | 40.6 | 47.8 | 35.8 | 21.2 |
| Eurasia (Europe & NIS) | 25.1 | 26.1 | 27.0 | 31.6 | 29.6 | 37.5 |
| Middle East & Africa | 84.4 | 84.4 | 84.8 | 161.1 | 176.3 | 176.2 |
| Americas | 0.1 | 0.1 | 0.5 | 5.5 | 5.6 | 3.9 |
| Subtotal | 171.5 | 160.0 | 156.1 | 249.2 | 250.7 | 242.6 |
| Proportional interests in production by equity-method affiliates | 74.4 | 84.9 | 86.6 | 90.0 | 97.6 | 86.5 |
| Total | 245.9 | 244.9 | 242.7 | 339.2 | 348.3 | 329.1 |
| Annual production (MMbbl) | 89.8 | 89.4 | 88.6 | 124.2 | 127.1 | 120.1 |
| **Natural gas** (MMcf/d): | | | | | | |
| Japan | 133.7 | 125.5 | 113.9 | 119.7 | 132.0 | 145.6 |
| Asia & Oceania | 586.4 | 602.8 | 596.5 | 666.8 | 614.8 | 326.9 |
| Eurasia (Europe & NIS) | — | — | — | — | 5.3 | 21.4 |
| Middle East & Africa | — | — | — | — | — | — |
| Americas | 90.9 | 107.4 | 103.2 | 87.3 | 116.5 | 107.7 |
| Subtotal | 811.0 | 835.7 | 813.7 | 873.8 | 868.6 | 601.6 |
| Proportional interests in production by equity-method affiliates | 52.4 | 40.7 | 66.4 | 59.1 | 54.1 | 48.1 |
| Total | 863.4 | 876.4 | 880.0 | 932.9 | 922.7 | 649.7 |
| Annual production (Billions of cubic feet) | 315.1 | 319.9 | 321.2 | 341.4 | 336.8 | 237.1 |
| **Crude oil and natural gas** (Mboed): | | | | | | |
| Japan | 29.0 | 27.2 | 24.6 | 25.7 | 28.3 | 31.1 |
| Asia & Oceania | 169.4 | 159.9 | 154.3 | 174.0 | 152.5 | 82.7 |
| Eurasia (Europe & NIS) | 25.1 | 26.1 | 27.0 | 31.6 | 30.6 | 41.4 |
| Middle East & Africa | 84.4 | 84.4 | 84.8 | 161.1 | 176.3 | 176.2 |
| Americas | 16.2 | 19.0 | 19.0 | 21.0 | 26.5 | 23.5 |
| Subtotal | 324.0 | 316.7 | 309.7 | 413.4 | 414.1 | 354.9 |
| Proportional interests in production by equity-method affiliates | 83.8 | 92.1 | 98.4 | 100.5 | 107.2 | 95.0 |
| Total | 407.8 | 408.8 | 408.1 | 513.8 | 521.3 | 449.9 |
| Annual production (MMboe) | 148.8 | 149.2 | 148.9 | 188.1 | 190.3 | 164.2 |

# Corporate Information

(As of March 31, 2018)

## Corporate Data

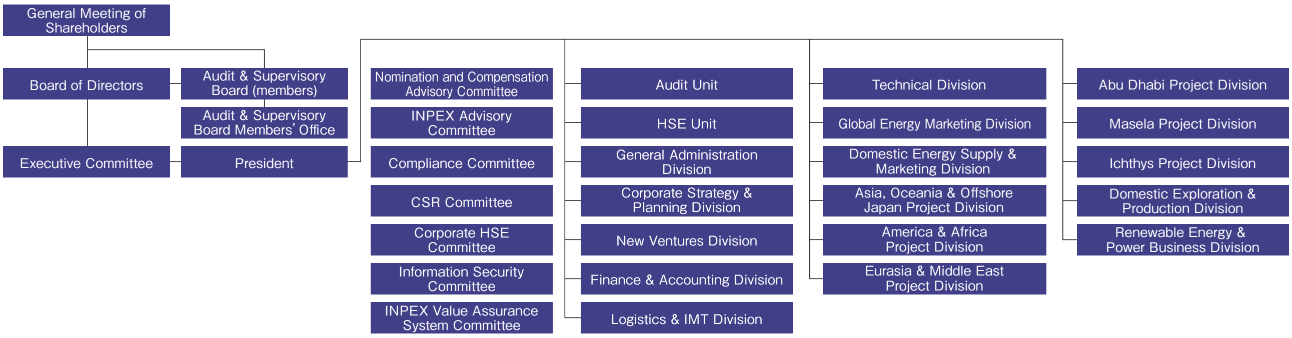
**Company Name** INPEX CORPORATION
**Established** April 3, 2006
**Capital** ¥290,809,835,000
**Company Headquarters** Akasaka Biz Tower, 5-3-1 Akasaka, Minato-ku, Tokyo 107-6332, Japan

**Number of Employees (Consolidated)** 3,189

**Main Business**

Research, exploration, development, production and sales of oil, natural gas and other mineral resources, other related businesses and investment and lending to the companies engaged in these activities, etc.

## Organization Chart (As of July 1, 2018)




## Stock Data

### Authorized Shares:

3,600,000,000 common stocks
1 Class A Stock

### Total Number of Shareholders and Issued Shares

**Common Stock:** 33,724 shareholders/1,462,323,600 shares
**Class A Stock*:** 1 shareholder (Minister of Economy, Trade and Industry)/1 share

*The Company's Articles of Incorporation stipulate that certain major corporate decisions require a resolution by the holder of the Class A Stock in addition to the approval of the shareholders' meetings or the Board of Directors.

### Major Shareholders (Common Stock)

| Name | Number of shares | Percentage of total common shares* (%) |
|---|---|---|
| Minister of Economy, Trade and Industry | 276,922,800 | 18.96 |
| Japan Petroleum Exploration Co., Ltd. | 106,893,200 | 7.32 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 54,594,300 | 3.74 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 45,456,300 | 3.11 |
| JXTG Holdings, Inc. | 43,810,800 | 3.00 |
| Mitsui Oil Exploration Co., Ltd | 32,924,000 | 2.25 |
| The Bank of New York 133524 | 24,028,800 | 1.65 |
| State Street Bank Client Omnibus OM04 | 21,847,358 | 1.50 |
| GOVERNMENT OF NORWAY | 20,979,500 | 1.44 |
| Japan Trustee Services Bank, Ltd. (Trust Account 5) | 20,819,700 | 1.43 |

*The shareholder ratio is calculated after subtracting treasury shares (1,966,500 shares). The shareholder ratio is rounded off to the nearest whole number.

### Shareholding by Shareholder Type

| Shareholder type | Number of shareholders | Number of shares | Percentage of total common shares[1] (%) |
|---|---|---|---|
| Financial Institutions (Including Trust Accounts) | 74 | 251,057,900 | 17.17 |
| Securities Companies | 35 | 16,558,958 | 1.13 |
| Other Domestic Corporations | 311 | 217,418,842 | 14.87 |
| Minister of Economy, Trade and Industry[2] | 1 | 276,922,800 | 18.94 |
| Foreign Corporations and Other | 848 | 665,854,564 | 45.53 |
| Individuals and Other | 32,454 | 32,544,036 | 2.23 |
| Treasury Shares | 1 | 1,966,500 | 0.13 |

1. The percentages of total common shares are for the total number of issued common shares. The shareholder ratio is rounded off to the nearest whole number.
2. Excludes one Class A Stock

### Web Site

The Company's Web site provides investors with the most up-to-date IR information, including financial statements.
▶ **www.inpex.co.jp/english**

### Inquiries

For IR inquiries, as well as to offer comments and opinions about this report, please contact below.
Corporate Strategy & Planning Division
Corporate Communications Unit
Investor Relations Group
Phone: **+81-3-5572-0234**, Fax: **+81-3-5572-0235**
Web site: **www.inpex.co.jp/english/ir/inquiries.html**

This Report was printed using environmentally conscious methods and vegetable oil-based ink.

Printed in Japan

VEGETABLE OIL INK

Akasaka Biz Tower
5-3-1 Akasaka, Minato-ku, Tokyo 107-6332, Japan
Phone: +81-3-5572-0200

https://www.inpex.co.jp/english