

## Consolidated Financial Results for the Three Months Ended June 30, 2017 <under Japanese GAAP>

August 8, 2017

Note: The following report is a summary of the Japanese-language original.

Company name: Japan Petroleum Exploration Co., Ltd.  
 Listing: Tokyo Stock Exchange, First Section  
 Securities code: 1662  
 URL: <http://www.japex.co.jp/>  
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Scheduled date to file Quarterly Report: August 9, 2017  
 Scheduled date to commence dividend payments: –  
 Presentation of supplementary material on quarterly financial results: Yes  
 Holding of quarterly financial results presentation meeting (for institutional investors and analysts): None

(Millions of yen with fractional amounts discarded, unless otherwise noted)

### 1. Consolidated financial results for the three months ended June 30, 2017 (April 1, 2017 – June 30, 2017)

#### (1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
June 30, 2017	59,803	42.1	2,270	–	5,735	73.1	5,492	187.7
June 30, 2016	42,096	(29.9)	(974)	–	3,313	(60.1)	1,909	(72.0)

Note: Comprehensive income: Three months ended June 30, 2017: 601 million yen (– %)  
 Three months ended June 30, 2016: (9,838) million yen (– %)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2017	96.10	–
June 30, 2016	33.41	–

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2017	728,841	509,110	60.2
As of March 31, 2017	746,739	510,609	58.6

Reference: Equity As of June 30, 2017: 439,117 million yen As of March 31, 2017: 437,518 million yen

### 2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2017	–	5.00	–	10.00	15.00
Fiscal year ending March 31, 2018	–				
Fiscal year ending March 31, 2018 (Forecasts)		10.00	–	10.00	20.00

Note: Revisions to the latest forecasts of cash dividends: None

3. Consolidated financial forecasts for the fiscal year ending March 31, 2018 (April 1, 2017 – March 31, 2018)  
(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2018	211,025	1.9	4,489	555.3	(910)	—	1,219	(64.6)	21.33

Note: Revisions to the consolidated financial forecasts most recently announced: Yes

\* Notes

- (1) Changes in significant subsidiaries during the three months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of specific accounting for preparing quarterly consolidated financial statements: Yes  
Note: For details, please refer to “(3) Notes to consolidated financial statements (Application of specific accounting for preparing quarterly consolidated financial statements)” of “2. Consolidated financial statements” on page 9 of the attached material.
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
  - a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
  - b. Changes in accounting policies due to other reasons: None
  - c. Changes in accounting estimates: None
  - d. Restatement: None
- (4) Number of issued shares (common shares)
  - a. Total number of issued shares at the end of the period (including treasury shares)
 

As of June 30, 2017	57,154,776 shares
As of March 31, 2017	57,154,776 shares
  - b. Number of treasury shares at the end of the period
 

As of June 30, 2017	2,139 shares
As of March 31, 2017	2,139 shares
  - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)
 

Three months ended June 30, 2017	57,152,637 shares
Three months ended June 30, 2016	57,152,637 shares

\* Quarterly financial results reports are not required to be subjected to quarterly reviews.

\* Proper use of financial forecasts and other special matters

The forward-looking statements, including the financial forecasts shown in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable. As such, they do not constitute guarantees by the Company of future performance. Actual performance and other results may differ materially from these forecasts due to various factors.

For the suppositions that form the assumptions for financial forecasts and cautions concerning the use thereof, please refer to “(3) Explanation of consolidated financial forecasts and other forward-looking statements” of “1. Qualitative information regarding settlement of accounts for the three months ended June 30, 2017” on page 4 of the attached material to the quarterly financial results report.

(Method of accessing supplementary material on quarterly financial results)

On August 8, 2017, JAPEX posts a supplementary material on its website in the same time.

(Attached Material)

## 1. Qualitative information regarding settlement of accounts for the three months ended June 30, 2017

### (1) Explanation of operating results

During the three months ended June 30, 2017, net sales was ¥59,803 million, an increase of ¥17,706 million (+42.1%) year on year. Gross profit was ¥9,649 million, an increase of ¥3,202 million (+49.7%) year on year. The main factors behind the year-on-year increases in net sales and gross profit were increases in sales volumes of domestically produced crude oil and domestic natural gas and rises in sales prices of crude oil and natural gas.

Exploration expenses was ¥367 million, an increase of ¥241 million (+193.1%) year on year. Selling, general and administrative expenses was ¥7,011 million, a decrease of ¥283 million (-3.9%) year on year. As a result, operating profit increased by ¥3,244 million year on year to ¥2,270 million (operating loss of ¥974 million in the same period of the previous fiscal year).

Ordinary profit increased by ¥2,422 million (+73.1%) year on year to ¥5,735 million. This was because of the increase in operating profit, despite the fact that in non-operating income and expenses, negative factors, including the turnaround from foreign exchange gains to foreign exchange losses, outweighed the positive factors, including the turnaround from share of loss of entities accounted for using equity method in the same period of the previous fiscal year to share of profit of entities accounted for using equity method.

Profit before income taxes increased by ¥2,669 million (+87.3%) year on year to ¥5,729 million. Profit attributable to owners of parent increased by ¥3,583 million (+187.7%) year on year to ¥5,492 million.

Below is a breakdown of sales.

#### (i) E&P

Net sales from E&P (including liquefied natural gas (LNG) and bitumen) came to ¥48,540 million, an increase of ¥15,108 million (+45.2%) year on year. This was mainly the result of increases in sales volumes of crude oil and domestic natural gas, as well as rises in sales prices.

#### (ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥1,152 million, an increase of ¥20 million (+1.8%) year on year.

#### (iii) Other Businesses

Net sales from other businesses, such as the sale of oil products, including liquefied petroleum gas (LPG), fuel oil and the like, the transportation of natural gas, etc., as well as other subcontracted tasks, came to ¥10,110 million, an increase of ¥2,576 million (+34.2%) year on year.

### (2) Explanation of financial position

At the end of the first quarter, total assets decreased by ¥17,898 million from the previous fiscal year-end to ¥728,841 million.

Current assets decreased by ¥4,414 million from the previous fiscal year-end, mainly due to a decrease in notes and accounts receivable - trade. Non-current assets decreased by ¥13,483 million. This was due to the decline in property, plant and equipment resulting from the impact of exchange rate and depreciation, progress in the recovery of recoverable accounts included in other investments and other assets, and other factors.

Liabilities decreased by ¥16,399 million from the previous fiscal year-end to ¥219,730 million.

Current liabilities decreased by ¥8,110 million from the previous fiscal year-end, mainly due to a decrease in notes and accounts payable - trade. Non-current liabilities decreased by ¥8,288 million. This was due to the impact of exchange rate and the reclassification of loans payable with repayments due in one year or less to current liabilities in long-term loans payable.

Net assets decreased by ¥1,499 million from the previous fiscal year-end to ¥509,110 million. The main factors were decreases in foreign currency translation adjustment, valuation difference on available-for-sale securities and non-controlling interests, despite an increase in retained earnings.

(3) Explanation of consolidated financial forecasts and other forward-looking statements

The consolidated financial forecasts for the fiscal year ending March 31, 2018 have been revised from the forecasts announced on May 12, 2017.

Please refer to the “Notice of Financial Forecasts Revision and Recognition of Non-Operating Expenses, Extraordinary Losses, Income Taxes - Deferred” released on August 8, 2017, the same day of this report.

2. Consolidated financial statements  
(1) Consolidated quarterly balance sheet

(Millions of yen)

	As of March 31, 2017	As of June 30, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	109,488	113,851
Notes and accounts receivable - trade	28,283	21,118
Securities	1,302	1,300
Merchandise and finished goods	4,282	4,227
Work in process	84	284
Raw materials and supplies	5,414	4,704
Other	12,534	11,490
Allowance for doubtful accounts	(31)	(32)
Total current assets	161,359	156,944
Non-current assets		
Property, plant and equipment		
Construction in progress	217,984	216,312
Other, net	165,805	159,760
Total property, plant and equipment	383,790	376,073
Intangible assets		
Other	8,487	8,089
Total intangible assets	8,487	8,089
Investments and other assets		
Investment securities	148,237	151,611
Other	47,466	38,646
Allowance for doubtful accounts	(51)	(49)
Allowance for overseas investment loss	(2,549)	(2,473)
Total investments and other assets	193,102	187,734
Total non-current assets	585,380	571,896
Total assets	746,739	728,841

(Millions of yen)

	As of March 31, 2017	As of June 30, 2017
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	13,634	8,579
Provision	57	145
Other	24,219	21,074
Total current liabilities	37,911	29,800
Non-current liabilities		
Long-term loans payable	141,903	134,919
Deferred tax liabilities	29,497	29,079
Provision	1,175	1,148
Net defined benefit liability	3,572	3,434
Asset retirement obligations	18,292	17,833
Other	3,776	3,514
Total non-current liabilities	198,218	189,930
Total liabilities	236,129	219,730
<b>Net assets</b>		
Shareholders' equity		
Capital stock	14,288	14,288
Capital surplus	183	183
Retained earnings	345,693	352,640
Treasury shares	(10)	(10)
Total shareholders' equity	360,155	367,101
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	69,832	68,771
Deferred gains or losses on hedges	(226)	(8)
Foreign currency translation adjustment	7,301	2,756
Remeasurements of defined benefit plans	455	495
Total accumulated other comprehensive income	77,363	72,015
Non-controlling interests	73,091	69,993
Total net assets	510,609	509,110
<b>Total liabilities and net assets</b>	<b>746,739</b>	<b>728,841</b>

(2) Consolidated quarterly statement of income and Consolidated quarterly statement of comprehensive income  
Consolidated quarterly statement of income

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Net sales	42,096	59,803
Cost of sales	35,650	50,153
Gross profit	6,446	9,649
Exploration expenses		
Exploration expenses	135	433
Exploration subsidies	(10)	(66)
Total exploration expenses	125	367
Selling, general and administrative expenses	7,295	7,011
Operating profit (loss)	(974)	2,270
Non-operating income		
Interest income	299	345
Dividend income	1,037	1,099
Share of profit of entities accounted for using equity method	–	2,771
Foreign exchange gains	3,452	–
Other	216	259
Total non-operating income	5,006	4,476
Non-operating expenses		
Interest expenses	228	325
Share of loss of entities accounted for using equity method	370	–
Foreign exchange losses	–	485
Other	119	200
Total non-operating expenses	718	1,011
Ordinary profit	3,313	5,735
Extraordinary income		
Gain on sales of non-current assets	–	1
Total extraordinary income	–	1
Extraordinary losses		
Loss on sales of non-current assets	–	3
Loss on retirement of non-current assets	3	3
Provision for loss on business liquidation	249	–
Other	–	0
Total extraordinary losses	253	6
Profit before income taxes	3,059	5,729
Income taxes	471	634
Profit	2,588	5,095
Profit (loss) attributable to non-controlling interests	678	(397)
Profit attributable to owners of parent	1,909	5,492

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Profit	2,588	5,095
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,746)	(1,058)
Deferred gains or losses on hedges	(68)	230
Foreign currency translation adjustment	(6,874)	(5,692)
Remeasurements of defined benefit plans, net of tax	35	38
Share of other comprehensive income of entities accounted for using equity method	(772)	(37)
Changes in equity interest	–	2,025
Total other comprehensive income	(12,426)	(4,493)
Comprehensive income	(9,838)	601
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(10,028)	2,170
Comprehensive income attributable to non-controlling interests	189	(1,569)



(3) Notes to consolidated financial statements

(Notes on premise of going concern)

No item to report.

(Notes on significant changes in the amount of shareholders' equity)

No item to report.

(Application of specific accounting for preparing quarterly consolidated financial statements)

*Deferral accounting of cost variance*

Cost variance arising from seasonal changes in production level is deferred as current assets (other) and current liabilities (other) because such variance is expected to be almost completely eliminated by the end of the cost accounting period.

*Calculation of taxes*

For the taxes, JAPEX and some of its consolidated subsidiaries compute first by reasonably estimating the effective tax rate after applying tax effect accounting against profit before income taxes for the fiscal year including the first quarter, and next by multiplying the quarterly profit before income taxes by such estimated effective tax rate.

However, in cases where the calculation of taxes using such estimated effective tax rate yields a result that is not reasonable to a significant extent, the effective statutory tax rate is used.

Note that income taxes - deferred is included in income taxes.

(Significant subsequent events)

*Decision not to proceed with LNG Project in British Columbia, Canada*

With regard to Pacific NorthWest LNG project in British Columbia, Canada (hereinafter "the PNW LNG Project") which JAPEX pursued through its foreign subsidiary JAPEX Montney Ltd. (hereinafter "JML"), JAPEX announced on July 25, 2017 (Pacific Daylight Time (PDT), Canada) that Pacific NorthWest LNG (hereinafter "PNWL"), an operating company, will not proceed with the project.

In April 2013, JAPEX took part, through JML, in shale gas development and production project (hereinafter "the Upstream Project") as well as the PNW LNG Project for producing LNG from shale gas reserves. We reached the decision, however, not to proceed due to changes to circumstances in the LNG industry.

As a result of this decision, JAPEX will post approximately CAD 65 million of extraordinary losses for termination of the pipeline construction plan relating to the PNW LNG Project and approximately CAD 37 million of share of loss of entities accounted for using equity method relating to PNWL in non-operating expenses respectively in this fiscal year. We are examining impacts to the Upstream Project associated with the decision.

*Decision not to re-start operation of bitumen by SAGD method in the 3.75 section area of Hangingstone in the province of Alberta, Canada*

JAPEX resolved at the meeting of Board of Directors held on August 8, 2017 not to re-start operations of bitumen (ultra-heavy crude oil extracted from oil sands) production using SAGD (Steam Assisted Gravity Drainage) method\* in the 3.75 Section Area (hereinafter "the DEMO Area") at the Hangingstone leases in the province of Alberta, Canada by its foreign subsidiary Japan Canada Oil Sands Limited (hereinafter "JACOS").

Since the start of the pilot production using SAGD method in the DEMO Area in 1999, JACOS has produced a cumulative total of 35 million barrels of bitumen. However, the wildfires in May 2016 forced suspension of operations, and aiming at improvement of our financial results under the stagnating oil prices environment, we decided to leave the operations suspended rather than restart later that year. We have been evaluating the possibility to restart operations, but in the continuing severe business environment including low oil prices and the increasing technical risks of a re-start due to declining temperature and pressure of the oil sands layer, we decided not to re-start production operations using SAGD method in the DEMO Area.

As a result of this decision, JAPEX plans to post the whole amount of approximately US\$69 million of property, plant and equipment relating to the DEMO Area as non-operating expenses using the unit-of-production method in this fiscal year.

\* One of the methods to extract ultra-heavy crude oil by injecting steam into the formation to increase fluidity of ultra-heavy crude oil and to use the gravity effect for extraction.

### 3. Supplemental information

#### Status of production and sales

##### (1) Production

		Three months ended June 30, 2016 (April 1, 2016 – June 30, 2016)	Three months ended June 30, 2017 (April 1, 2017 – June 30, 2017)	(Reference) Fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017)
E&P	Crude oil (kl)	388,459 (311,247)	376,854 (300,183)	1,570,228 (1,264,026)
	Natural gas (thousand m <sup>3</sup> )	358,243 (166,930)	343,960 (147,666)	1,380,939 (600,976)
	LNG (t)	3,699	2,800	10,154
	Bitumen (kl)	65,396 (65,396)	– (–)	90,751 (90,751)

- Notes: 1. The figures in parentheses represent overseas production and are included in the total.  
2. Part of the natural gas production volume is used as a feedstock for LNG.  
3. Bitumen is a type of extra-heavy oil extracted from oil sands.

##### (2) Sales

		Three months ended June 30, 2016 (April 1, 2016 – June 30, 2016)		Three months ended June 30, 2017 (April 1, 2017 – June 30, 2017)		(Reference) Fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017)	
		Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)
E&P	Crude oil (kl)	646,504	17,896	872,496	29,530	2,670,522	81,428
	Natural gas (thousand m <sup>3</sup> )	436,037	12,439	435,632	13,769	1,864,865	55,329
	LNG (t)	40,542	2,765	96,044	5,240	398,295	20,278
	Bitumen (kl)	65,280	329	–	–	91,627	669
Subtotal			33,431		48,540		157,706
Contract services			1,131		1,152		10,354
Other businesses	Oil products /merchandise		6,370		8,724		33,354
	Others		1,163		1,386		5,715
Subtotal			7,533		10,110		39,069
Total			42,096		59,803		207,130

- Notes: 1. “Oil products/merchandise” includes liquefied petroleum gas (LPG), fuel oil, gas oil and kerosene, and “Others” includes the transportation of natural gas and oil products as well as other subcontracted tasks.  
2. Monetary amounts in the table do not include consumption taxes.