

Consolidated Financial Results for the Nine Months Ended December 31, 2017 <under Japanese GAAP>

February 9, 2018

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
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Scheduled date to file Quarterly Report: February 13, 2018
 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 nine months ended December 31, 2017 (April 1, 2017 – December 31, 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 | % |
| December 31, 2017 | 158,274 | 9.4 | 4,400 | – | 4,111 | – | (30,337) | – |
| December 31, 2016 | 144,678 | (22.8) | (1,676) | – | 274 | (95.9) | 1,848 | (71.0) |

Note: Comprehensive income: Nine months ended December 31, 2017: (41,789) million yen (– %)
 Nine months ended December 31, 2016: (1,401) million yen (– %)

| | Basic earnings per share | Diluted earnings per share |
|-------------------|--------------------------|----------------------------|
| | Yen | Yen |
| December 31, 2017 | (530.82) | – |
| December 31, 2016 | 32.35 | – |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|-------------------------|-----------------|-----------------|--------------|
| | Millions of yen | Millions of yen | % |
| As of December 31, 2017 | 708,612 | 466,148 | 60.9 |
| As of March 31, 2017 | 746,739 | 510,609 | 58.6 |

Reference: Equity As of December 31, 2017: 431,756 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 | – | 10.00 | – | | |
| Fiscal year ending March 31, 2018 (Forecasts) | | | | 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 | 230,553 | 11.3 | 6,785 | 890.5 | 5,408 | 143.4 | (28,466) | – | (498.07) |

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

* Notes

- (1) Changes in significant subsidiaries during the nine 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 and significant notes thereto” on page 10 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 December 31, 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 December 31, 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)

| | |
|-------------------------------------|-------------------|
| Nine months ended December 31, 2017 | 57,152,637 shares |
| Nine months ended December 31, 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 nine months ended December 31, 2017” on page 5 of the attached material to the quarterly financial results report.

(Method of accessing supplementary material on quarterly financial results)

On February 9, 2018, JAPEX posts a supplementary material on its website in the same time.

(Significant impairment loss on non-current assets)

A foreign subsidiary, JAPEX Montney Ltd., has reduced the carrying amount of its assets in the shale gas project in British Columbia, Canada (hereinafter “the Upstream Project”) to the recoverable amount and recognized impairment loss due to the revision of the development plan of the Upstream Project without the assumption of the Pacific NorthWest LNG Project (hereinafter “the PNW LNG Project”) following the decision not to proceed with the PNW LNG Project, which had pursued the possibility of producing LNG (liquefied natural gas) producing from shale gas in the Upstream Project. Amount of impairment loss recognized in the financial results during the nine months ended December 31, 2017 was ¥68,035 million. For more information leading to the impairment loss, please refer to the announcement “Notice of Recognition of Impairment Loss (Consolidated) and Loss on Valuation of Shares of Subsidiaries and Associates (Non-Consolidated)” released on January 26, 2018.

(Attached Material)

1. Qualitative information regarding settlement of accounts for the nine months ended December 31, 2017

(1) Explanation of operating results

During the nine months ended December 31, 2017, net sales was ¥158,274 million, an increase of ¥13,596 million (+9.4%) year on year. Gross profit was ¥26,816 million, an increase of ¥6,148 million (+29.7%) year on year. The main factors behind the year-on-year increases in net sales and gross profit were rises in sales prices of crude oil and natural gas, and an increase in sales volume of domestic natural gas.

Exploration expenses was ¥996 million, a decrease of ¥108 million (-9.8%) year on year. Selling, general and administrative expenses was ¥21,419 million, an increase of ¥178 million (+0.8%) year on year. As a result, operating profit improved by ¥6,077 million year on year to ¥4,400 million (operating loss of ¥1,676 million in the same period of the previous fiscal year).

At Japan Canada Oil Sands Limited (JACOS), following the decision not to restart operation of bitumen production using SAGD method* in the 3.75 Section Area (hereinafter “the DEMO Area”) at the Hangingstone leases in the province of Alberta, Canada, the property, plant and equipment relating to the DEMO Area was depreciated by the unit-of-production method and was posted to depreciation of inactive non-current assets. Despite this and other negative factors, due to positive factors such as shifting share of loss of entities accounted for using equity method in the previous fiscal year to share of profit, and an increase in foreign exchange gains, as well as an improvement of operating profit, ordinary profit was ¥4,111 million, an increase of ¥3,837 million year on year.

Following the decision not to proceed the Pacific NorthWest LNG Project (hereinafter “the PNW LNG Project”), the development plan of the shale gas project (hereinafter “the Upstream Project”) was revised without the assumption of the PNW LNG Project. As a result, due to the posting of impairment loss on the asset of JAPEX Montney Ltd. (JML) relating to the Upstream Project, and the posting of cancellation expenses of pipeline construction plan relating to the PNW LNG Project as other in extraordinary losses, loss before income taxes increased by ¥69,457 million to ¥69,472 million (loss before income taxes of ¥14 million in the same period of the previous fiscal year), and profit attributable to owners of parent decreased ¥32,186 million year on year to loss attributable to owners of parent of ¥30,337 million (profit attributable to owners of parent of ¥1,848 million in the same period of the previous 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.

Below is a breakdown of sales.

(i) E&P

Net sales from E&P (including liquefied natural gas (LNG), bitumen and diluted bitumen) came to ¥118,977 million, an increase of ¥7,468 million (+6.7%) year on year. This was mainly the result of rises in sales price of crude oil and natural gas and increases in sales volume of domestic natural gas and LNG.

(ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥6,556 million, a decrease of ¥504 million (-7.1%) 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 ¥32,741 million, an increase of ¥6,632 million (+25.4%) year on year.

(2) Explanation of financial position

At the end of the third quarter, total assets decreased by ¥38,126 million from the previous fiscal year-end to ¥708,612 million.

Current assets decreased by ¥11,162 million from the previous fiscal year-end, mainly due to a decrease in cash and deposits. Non-current assets decreased by ¥26,963 million. This was due to the decline in property, plant and equipment resulting from the above-mentioned impairment loss of business assets of JML, progress in the recovery of recoverable accounts included in other investments and other assets, and other factors, despite the increase in investment securities resulting from the rise in market values and other factors.

Liabilities increased by ¥6,335 million from the previous fiscal year-end to ¥242,464 million.

Current liabilities increased by ¥5,948 million from the previous fiscal year-end, mainly due to an increase in short-term loans payable included in other current liabilities. Non-current liabilities increased by ¥387 million. This was mainly due to the increase of deferred tax liabilities resulting from the above-mentioned rise in market values of investment securities, despite the decrease due to the impact of fluctuation in foreign exchange rates 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 ¥44,461 million from the previous fiscal year-end to ¥466,148 million. The main factors were decreases in non-controlling interests and retained earnings, despite an increase in valuation difference on available-for-sale securities.

(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 November 10, 2017.

Please refer to the “Notice of Financial Forecasts Revision and Non-operating Income and Extraordinary Losses Recognition” released on February 9, 2018, the same day of this report.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheet

(Millions of yen)

| | As of March 31, 2017 | As of December 31, 2017 |
|--|----------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 109,488 | 100,241 |
| Notes and accounts receivable - trade | 28,283 | 20,385 |
| Securities | 1,302 | 1,500 |
| Merchandise and finished goods | 4,282 | 4,599 |
| Work in process | 84 | 584 |
| Raw materials and supplies | 5,414 | 7,034 |
| Other | 12,534 | 15,882 |
| Allowance for doubtful accounts | (31) | (33) |
| Total current assets | 161,359 | 150,196 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 39,433 | 185,593 |
| Construction in progress | 217,984 | 77,842 |
| Other, net | 126,371 | 71,137 |
| Total property, plant and equipment | 383,790 | 334,573 |
| Intangible assets | | |
| Other | 8,487 | 7,587 |
| Total intangible assets | 8,487 | 7,587 |
| Investments and other assets | | |
| Investment securities | 148,237 | 188,762 |
| Other | 47,466 | 29,892 |
| Allowance for doubtful accounts | (51) | (49) |
| Allowance for overseas investment loss | (2,549) | (2,350) |
| Total investments and other assets | 193,102 | 216,254 |
| Total non-current assets | 585,380 | 558,416 |
| Total assets | 746,739 | 708,612 |

(Millions of yen)

| | As of March 31, 2017 | As of December 31, 2017 |
|---|----------------------|-------------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 13,634 | 9,472 |
| Provision | 57 | 776 |
| Other | 24,219 | 33,610 |
| Total current liabilities | 37,911 | 43,859 |
| Non-current liabilities | | |
| Long-term loans payable | 141,903 | 133,464 |
| Deferred tax liabilities | 29,497 | 38,745 |
| Provision | 1,175 | 1,367 |
| Net defined benefit liability | 3,572 | 3,496 |
| Asset retirement obligations | 18,292 | 18,374 |
| Other | 3,776 | 3,157 |
| Total non-current liabilities | 198,218 | 198,605 |
| Total liabilities | 236,129 | 242,464 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 14,288 | 14,288 |
| Capital surplus | 183 | 183 |
| Retained earnings | 345,693 | 316,248 |
| Treasury shares | (10) | (10) |
| Total shareholders' equity | 360,155 | 330,709 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 69,832 | 94,465 |
| Deferred gains or losses on hedges | (226) | 49 |
| Foreign currency translation adjustment | 7,301 | 5,956 |
| Remeasurements of defined benefit plans | 455 | 575 |
| Total accumulated other comprehensive income | 77,363 | 101,047 |
| Non-controlling interests | 73,091 | 34,391 |
| Total net assets | 510,609 | 466,148 |
| Total liabilities and net assets | 746,739 | 708,612 |

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

(Millions of yen)

| | Nine months ended December 31, 2016 | Nine months ended December 31, 2017 |
|---|--|--|
| Net sales | 144,678 | 158,274 |
| Cost of sales | 124,010 | 131,457 |
| Gross profit | 20,668 | 26,816 |
| Exploration expenses | | |
| Exploration expenses | 1,229 | 1,051 |
| Exploration subsidies | (124) | (55) |
| Total exploration expenses | 1,104 | 996 |
| Selling, general and administrative expenses | 21,240 | 21,419 |
| Operating profit (loss) | (1,676) | 4,400 |
| Non-operating income | | |
| Interest income | 919 | 1,061 |
| Dividend income | 2,072 | 2,303 |
| Share of profit of entities accounted for using equity method | – | 1,630 |
| Foreign exchange gains | 626 | 3,889 |
| Other | 759 | 665 |
| Total non-operating income | 4,378 | 9,550 |
| Non-operating expenses | | |
| Interest expenses | 707 | 1,258 |
| Share of loss of entities accounted for using equity method | 1,244 | – |
| Depreciation of inactive non-current assets | – | 7,823 |
| Other | 476 | 757 |
| Total non-operating expenses | 2,427 | 9,840 |
| Ordinary profit | 274 | 4,111 |
| Extraordinary income | | |
| Gain on sales of non-current assets | – | 2 |
| Other | – | 0 |
| Total extraordinary income | – | 3 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 38 | 71 |
| Impairment loss | – | 68,035 |
| Provision for loss on business liquidation | 249 | – |
| Other | 0 | 5,480 |
| Total extraordinary losses | 288 | 73,587 |
| Loss before income taxes | (14) | (69,472) |
| Income taxes | 620 | (409) |
| Loss | (634) | (69,063) |
| Loss attributable to non-controlling interests | (2,483) | (38,725) |
| Profit (loss) attributable to owners of parent | 1,848 | (30,337) |

Consolidated quarterly statement of comprehensive income

(Millions of yen)

| | Nine months ended December 31, 2016 | Nine months ended December 31, 2017 |
|--|--|--|
| Loss | (634) | (69,063) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 24,955 | 24,601 |
| Deferred gains or losses on hedges | 25 | 291 |
| Foreign currency translation adjustment | (25,463) | (79) |
| Remeasurements of defined benefit plans, net of tax | 106 | 115 |
| Share of other comprehensive income of entities accounted for using equity method | (389) | 309 |
| Changes in equity interest | – | 2,035 |
| Total other comprehensive income | (766) | 27,273 |
| Comprehensive income | (1,401) | (41,789) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 6,376 | (4,618) |
| Comprehensive income attributable to non-controlling interests | (7,778) | (37,171) |

(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 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 third 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.

3. Supplemental information

Status of production and sales

(1) Production

| | | Nine months ended December 31, 2016 (April 1, 2016 – December 31, 2016) | Nine months ended December 31, 2017 (April 1, 2017 – December 31, 2017) | (Reference) Fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017) |
|-----|---|--|--|--|
| E&P | Crude oil (kl) | 1,153,670 (924,184) | 984,937 (762,822) | 1,570,228 (1,264,026) |
| | Natural gas (thousand m ³) | 1,025,128 (454,968) | 937,375 (367,917) | 1,380,939 (600,976) |
| | LNG (t) | 9,656 | 7,831 | 10,154 |
| | Bitumen (kl) | 90,751 (90,751) | 24,491 (24,491) | 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 formation.

(2) Sales

| | | Nine months ended December 31, 2016 (April 1, 2016 – December 31, 2016) | | Nine months ended December 31, 2017 (April 1, 2017 – December 31, 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) | 2,229,233 | 63,125 | 1,752,561 | 61,950 | 2,670,522 | 81,428 |
| | Natural gas (thousand m ³) | 1,321,461 | 37,170 | 1,272,080 | 42,433 | 1,864,865 | 55,329 |
| | LNG (t) | 197,586 | 10,617 | 249,660 | 14,201 | 398,295 | 20,278 |
| | Bitumen (kl) | 91,620 | 594 | – | – | 91,627 | 669 |
| | Diluted bitumen (kl) | – | – | 14,979 | 390 | – | – |
| Subtotal | | | 111,508 | | 118,977 | | 157,706 |
| Contract services | | | 7,060 | | 6,556 | | 10,354 |
| Other businesses | Oil products /merchandise | | 22,139 | | 28,396 | | 33,354 |
| | Others | | 3,969 | | 4,345 | | 5,715 |
| Subtotal | | | 26,108 | | 32,741 | | 39,069 |
| Total | | | 144,678 | | 158,274 | | 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. Diluted bitumen is bitumen diluted by ultra-light crude oil for pipeline transportation.
3. Monetary amounts in the table do not include consumption taxes.