

Consolidated Financial Results for the Three Months Ended June 30, 2018 <under Japanese GAAP>

August 8, 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
 URL: <https://www.japex.co.jp/>
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Scheduled date to file Quarterly Report: August 10, 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 three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(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, 2018	57,623	(3.6)	(2,634)	–	(3,181)	–	(2,261)	–
June 30, 2017	59,803	42.1	2,270	–	5,735	73.1	5,492	187.7

Note: Comprehensive income: Three months ended June 30, 2018: (22,130) million yen (– %)
 Three months ended June 30, 2017: 601 million yen (– %)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2018	(39.57)	–
June 30, 2017	96.10	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2018	652,010	436,370	62.0
As of March 31, 2018	699,536	459,255	60.8

Reference: Equity As of June 30, 2018: 404,140 million yen As of March 31, 2018: 425,114 million yen

2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	–	10.00	–	10.00	20.00
Fiscal year ending March 31, 2019	–				
Fiscal year ending March 31, 2019 (Forecast)		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, 2019 (April 1, 2018 – March 31, 2019)
(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, 2019	284,019	23.1	2,125	(75.8)	10,003	161.3	11,007	–	192.59

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 and significant notes thereto” 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: Yes

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatement: None

Note: For details, please refer to “(3) Notes to consolidated financial statements (Changes in accounting policies)” of “2. Consolidated financial statements and significant notes thereto” on page 9 of the attached material.

(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, 2018 57,154,776 shares

As of March 31, 2018 57,154,776 shares

b. Number of treasury shares at the end of the period

As of June 30, 2018 2,139 shares

As of March 31, 2018 2,139 shares

c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2018 57,152,637 shares

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

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* 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, 2018” 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, 2018, JAPEX posts a supplementary material on its website.

(Attached Material)

1. Qualitative information regarding settlement of accounts for the three months ended June 30, 2018

(1) Explanation of operating results

During the three months ended June 30, 2018, net sales was ¥57,623 million, a decrease of ¥2,180 million (-3.6%) year on year. Gross profit was ¥5,079 million, a decrease of ¥4,569 million (-47.4%) year on year. The main factors behind the year-on-year decreases in net sales and gross profit were decreases in sales volumes of crude oil and natural gas, despite rises in sales prices of crude oil and natural gas.

Exploration expenses was ¥143 million, a decrease of ¥223 million (-60.9%) year on year. Selling, general and administrative expenses was ¥7,571 million, an increase of ¥559 million (+8.0%) year on year. As a result, operating profit deteriorated by ¥4,905 million year on year to an operating loss of ¥2,634 million (operating profit of ¥2,270 million in the same period of the previous fiscal year).

Ordinary profit deteriorated by ¥8,917 million year on year to an ordinary loss of ¥3,181 million (ordinary profit of ¥5,735 million in the same period of the previous fiscal year), mainly because of a decrease in share of profit of entities accounted for using equity method and an increase in foreign exchange losses.

Profit before income taxes deteriorated by ¥8,974 million year on year to a loss before income taxes of ¥3,244 million (profit before income taxes of ¥5,729 million in the same period of the previous fiscal year). Profit attributable to owners of parent also deteriorated by ¥7,754 million year on year to a loss attributable to owners of parent of ¥2,261 million (profit attributable to owners of parent of ¥5,492 million in the same period of the previous fiscal year).

Below is a breakdown of sales.

(i) Oil and Gas

Net sales from oil and gas (including liquefied natural gas (LNG) and diluted bitumen) came to ¥45,807 million, a decrease of ¥2,732 million (-5.6%) year on year. This was mainly the result of decreases in sales volumes of crude oil and natural gas, despite rises in sales prices of crude oil and natural gas.

(ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥1,178 million, an increase of ¥26 million (+2.3%) 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 ¥10,637 million, an increase of ¥526 million (+5.2%) year on year.

(2) Explanation of financial position

At the end of the first quarter, total assets decreased by ¥47,526 million from the previous fiscal year-end to ¥652,010 million.

Current assets decreased by ¥12,130 million from the previous fiscal year-end, mainly due to a decrease in cash and deposits. Non-current assets decreased by ¥35,395 million. This was due to the fall in market values of investment securities, the decline in property, plant and equipment resulting from the impact of fluctuation in foreign exchange rates, progress in the recovery of recoverable accounts included in other in investments and other assets, and other factors.

Liabilities decreased by ¥24,641 million from the previous fiscal year-end to ¥215,640 million.

Current liabilities decreased by ¥9,332 million from the previous fiscal year-end, mainly due to decreases in accounts payable - other and income taxes payable, which are included in other in current liabilities, and a decrease in notes and accounts payable - trade. Non-current liabilities decreased by ¥15,309 million from the previous fiscal year-end. This was mainly the result of the decrease in long-term loans payable 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, and the decrease of deferred tax liabilities resulting from the above-mentioned fall in market values of investment securities.

Net assets decreased by ¥22,884 million from the previous fiscal year-end to ¥436,370 million. The main factors were decreases in valuation difference on available-for-sale securities, foreign currency translation adjustment, retained earnings and non-controlling interests.

Please note that the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances have been applied from the beginning of the first quarter ended June 30, 2018. Accordingly, the figures presented for the financial position for the fiscal year ended March 31, 2018 have been retrospectively adjusted in order to conduct comparison and analysis against the previous fiscal year using figures that reflect the application of the aforementioned standard, etc.

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

The consolidated financial forecasts for the fiscal year ending March 31, 2019 have been revised from the forecasts announced on May 11, 2018.

Please refer to the “Notice of Financial Forecasts Revision” released on August 8, 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, 2018	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	115,313	103,142
Notes and accounts receivable - trade	26,073	23,128
Securities	2,200	2,400
Merchandise and finished goods	5,447	5,019
Work in process	381	360
Raw materials and supplies	5,524	8,858
Other	14,246	14,145
Allowance for doubtful accounts	(34)	(34)
Total current assets	169,151	157,021
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	187,073	185,571
Other, net	142,416	129,090
Total property, plant and equipment	329,490	314,662
Intangible assets		
Other	8,226	7,908
Total intangible assets	8,226	7,908
Investments and other assets		
Investment securities	167,342	152,177
Other	27,357	22,188
Allowance for doubtful accounts	(50)	(50)
Allowance for overseas investment loss	(1,982)	(1,896)
Total investments and other assets	192,667	172,418
Total non-current assets	530,384	494,989
Total assets	699,536	652,010

(Millions of yen)

	As of March 31, 2018	As of June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,544	11,542
Provision	1,415	1,190
Other	28,656	21,550
Total current liabilities	43,615	34,283
Non-current liabilities		
Long-term loans payable	135,959	126,318
Deferred tax liabilities	34,833	30,171
Net defined benefit liability	3,496	3,363
Provision	640	566
Asset retirement obligations	18,664	18,043
Other	3,071	2,893
Total non-current liabilities	196,665	181,356
Total liabilities	240,281	215,640
Net assets		
Shareholders' equity		
Capital stock	14,288	14,288
Capital surplus	183	183
Retained earnings	317,679	314,846
Treasury shares	(10)	(10)
Total shareholders' equity	332,140	329,307
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	86,667	74,121
Deferred gains or losses on hedges	3	34
Foreign currency translation adjustment	5,149	(468)
Remeasurements of defined benefit plans	1,152	1,145
Total accumulated other comprehensive income	92,973	74,832
Non-controlling interests	34,140	32,229
Total net assets	459,255	436,370
Total liabilities and net assets	699,536	652,010

(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, 2017	Three months ended June 30, 2018
Net sales	59,803	57,623
Cost of sales	50,153	52,543
Gross profit	9,649	5,079
Exploration expenses		
Exploration expenses	433	143
Exploration subsidies	(66)	–
Total exploration expenses	367	143
Selling, general and administrative expenses	7,011	7,571
Operating profit (loss)	2,270	(2,634)
Non-operating income		
Interest income	345	351
Dividend income	1,099	1,022
Share of profit of entities accounted for using equity method	2,771	2,387
Other	259	276
Total non-operating income	4,476	4,037
Non-operating expenses		
Interest expenses	325	860
Foreign exchange losses	485	3,437
Other	200	287
Total non-operating expenses	1,011	4,584
Ordinary profit (loss)	5,735	(3,181)
Extraordinary income		
Gain on sales of non-current assets	1	0
Total extraordinary income	1	0
Extraordinary losses		
Loss on sales of non-current assets	3	58
Other	3	4
Total extraordinary losses	6	62
Profit (loss) before income taxes	5,729	(3,244)
Income taxes	634	602
Profit (loss)	5,095	(3,846)
Loss attributable to non-controlling interests	(397)	(1,585)
Profit (loss) attributable to owners of parent	5,492	(2,261)

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit (loss)	5,095	(3,846)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,058)	(12,546)
Deferred gains or losses on hedges	230	25
Foreign currency translation adjustment	(5,692)	(5,608)
Remeasurements of defined benefit plans, net of tax	38	(7)
Share of other comprehensive income of entities accounted for using equity method	(37)	(145)
Changes in equity interest	2,025	–
Total other comprehensive income	(4,493)	(18,283)
Comprehensive income	601	(22,130)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,170	(20,402)
Comprehensive income attributable to non-controlling interests	(1,569)	(1,727)

(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.

(Changes in the scope of consolidation or the scope of application of the equity method)

Significant changes in the scope of application of the equity method

In the first quarter ended June 30, 2018, Japan Drilling Co., Ltd. was excluded from the scope of application of the equity method, since it filed a petition for commencement of corporate rehabilitation proceedings and no longer has a significant effect on quarterly consolidated financial statements.

The said company received an order commencing corporate rehabilitation proceedings from the Tokyo District Court as of July 25, 2018.

(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 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.

(Changes in accounting policies)

Application of the Implementation Guidance on Accounting Standard for Tax Effect Accounting

The "Implementation Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) has been applied from the beginning of the first quarter ended June 30, 2018, and the treatment of taxable temporary differences relating to shares of subsidiaries and others in non-consolidated financial statements has been reviewed.

This change in accounting policies has been applied retrospectively. For the previous fiscal year, the consolidated financial statements reflecting the retrospective application are shown.

Consequently, in the consolidated balance sheet for the previous fiscal year, deferred tax liabilities decreased by ¥2,047 million and retained earnings increased by ¥2,047 million compared with figures before the retrospective application.

(Additional information)

Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" and relevant Guidances

The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances have been applied from the beginning of the first quarter ended June 30, 2018. Accordingly, deferred tax assets were presented under investments and other assets, and deferred tax liabilities were presented under non-current liabilities.

(Significant subsequent events)

Sale of oil sands assets in the 3.75 Section Area of Hangingstone leases in the province of Alberta, Canada

Japan Canada Oil Sands Limited, a foreign consolidated subsidiary of JAPEX, entered into an agreement with Greenfire Hangingstone Operating Corp., a wholly-owned subsidiary of Greenfire Oil and Gas Ltd. (head office: province of Alberta, Canada), for sale of the participating interest in the 3.75 Section Area of Hangingstone leases in the province of Alberta, Canada and assets including wells and facilities relating to production operation owned by Japan Canada Oil Sands Limited on April 3, 2018 (local time in Calgary, Canada), and obtained approval from the Alberta Energy Regulator in the province of Alberta, Canada on August 3, 2018 (local time in Calgary, Canada).

Given this approval, approximately US\$30 million will be recorded as non-operating income due to reversal of asset retirement obligations and other factors in the fiscal year ending March 31, 2019.

Filing of lawsuit

A lawsuit has been filed against Sakhalin Oil and Gas Development Co., Ltd. (“SODECO”), an equity-method affiliate of JAPEX, by Russian company Rosneft in an arbitration court in the Sakhalin Region.

The lawsuit was received by the aforementioned court on July 20, 2018.

It is publically disclosed in a Russian legal database that Rosneft is claiming a total monetary amount of 26.7 billion rubles from SODECO.

It is difficult to reasonably forecast the effect of the aforementioned lawsuit on the future financial results of the Company.

3. Supplemental information

Status of production and sales

(1) Production

		Three months ended June 30, 2017 (April 1, 2017 – June 30, 2017)	Three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)	(Reference) Fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)
Oil and gas	Crude oil (kl)	376,854 (300,183)	278,551 (214,383)	1,272,188 (977,887)
	Natural gas (thousand m ³)	343,960 (147,666)	291,660 (136,210)	1,263,648 (494,680)
	LNG (t)	2,800	2,032	8,391
	Bitumen (kl)	– (–)	167,674 (167,674)	143,152 (143,152)

- 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, 2017 (April 1, 2017 – June 30, 2017)		Three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)		(Reference) Fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)	
		Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)
Oil and gas	Crude oil (kl)	872,496	29,530	468,426	23,627	2,346,258	89,173
	Natural gas (thousand m ³)	435,632	13,769	406,216	13,845	1,773,035	60,431
	LNG (t)	96,044	5,240	41,146	2,898	380,955	21,935
	Diluted bitumen (kl)	–	–	240,541	5,436	160,203	4,512
Subtotal			48,540		45,807		176,051
Contract services			1,152		1,178		8,484
Other businesses	Oil products /merchandise		8,724		9,383		40,162
	Others		1,386		1,254		5,930
Subtotal			10,110		10,637		46,093
Total			59,803		57,623		230,629

- 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.