

Note: The following report is an English translation 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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## **Notice of the Medium-Term Business Plan of the JAPEX Group**

Japan Petroleum Exploration Co., Ltd. (hereinafter the “Company”), has formulated its new Medium-Term Business Plan for the five-year period from fiscal 2012 to fiscal 2016.

To maintain and increase the proved reserve volume, which declines due to production and sales activities, and keep pace with changes in business conditions surrounding the Company, the Company announced, in May 2008 its Mid-Term Business Plan for the five-year period from fiscal 2009 to fiscal 2013, setting out three basic policies as key management tasks: 1) Sustaining and increasing reserves through exploration and development, 2) Strengthening our natural gas integrated operation system and 3) Pursuing technological R&D activities and initiatives to address global environmental challenges. The Company is thus determined to enhance its corporate value with specific policies to achieve these key management tasks.

In the above Mid-Term Business Plan, specific quantitative targets were set to be achieved by fiscal 2013 for proved reserves of oil and gas, natural gas sales volume and sales of domestically produced crude oil and natural gas. With diverse initiatives taken during recent years, all these targets are estimated to be achieved during fiscal 2012. Given these circumstances, the Company has newly formulated the new Medium-Term Business Plan covering five years from fiscal 2012 to fiscal 2016.

The Company anticipates increasing global competition for resource development, unstable energy prices, intensifying competition in the domestic natural gas business and the rising social consciousness of environmental issues. The E&P (the exploration, development and production of crude oil and natural gas) business, the domestic natural gas business, and the environment and innovative technology business will remain as basic policies to pursue for further expansion. The Company aims to raise its profitability through new investment in these three basic policies and maximize the value of its existing assets in Japan and overseas under its new Medium-Term Business Plan. As the impact of the Great East Japan Earthquake remains uncertain at this time, its effects are not taken into consideration in the new Medium-Term Business Plan, except for the estimates for fiscal 2012.

In the E&P business, three stages of quantitative targets are set toward the realization of our growth story: 1) Shifting businesses overseas in the period from fiscal 2012 through fiscal 2016, 2) Expanding consolidated daily production to 70,000 barrels of crude oil equivalent by fiscal 2016 and 3) Expanding the consolidated proved reserves to 450 million barrels of crude oil equivalent by fiscal 2021.

The JAPEX Group will strive to further reinforce its operating base and competitive edge with these initiatives. In addition, the Group will pursue the consistent development as a corporate group and maximized shareholder value by thoroughgoing management efficiency.

**Appendix: New Medium-Term Business Plan (FY2012—FY2016)**



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# Medium-Term Business Plan ( FY2012 - FY2016 )

**May 16 , 2011**

Japan Petroleum Exploration Co., Ltd.

# About the New Medium-Term Business Plan Covering the Period from FY2012 to FY2016

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- I . The New Medium-Term Business Plan**
- II . JAPEX's Perception of the Business Environment and Preconditions**  
(assumptions regarding crude oil prices and exchange rates)
- III Corporate Vision and Basic Strategies for JAPEX Expansion**
- IV. Growth Initiatives**
  - 1. E&P business
  - 2. Domestic natural gas business
  - 3. Environment and innovative technology business
- V. Consolidated Profit and Loss / Investment Portfolio**
- VI . Summary**

## I-1. The Level of Achievement against Previously Established Targets Leading into the New Medium- Business Plan

- In working toward the overarching goal of business growth and expansion, JAPEX is projected to achieve its targets for proved reserves, natural gas sales volume as well as sales of natural gas and domestically produced crude oil established under the mid-term business plan announced in May 2008 by the fiscal year ending March 31, 2012.

**Target 1**  
Proved reserves

**350 million BOE by FY2013**

- Final investment decision (FID) regarding the Canada Oil Sands Hangingstone Expansion Project (FY2012)  
Note: Plan to bring the proved reserves (60 million BOE) of the Garraf oilfield in Iraq to account following confirmation in fiscal 2014

\* FDP: Final Development Plan

**Target 2**  
Natural gas sales volume

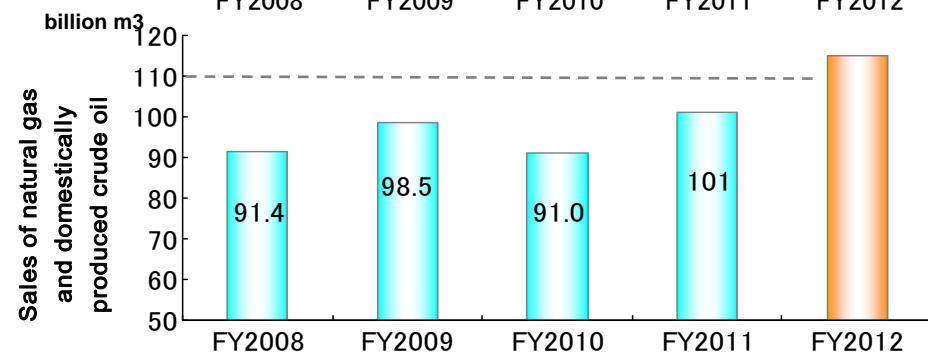
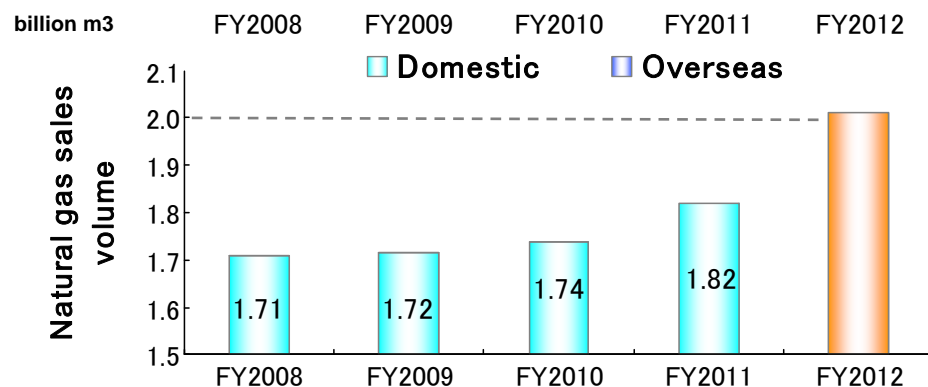
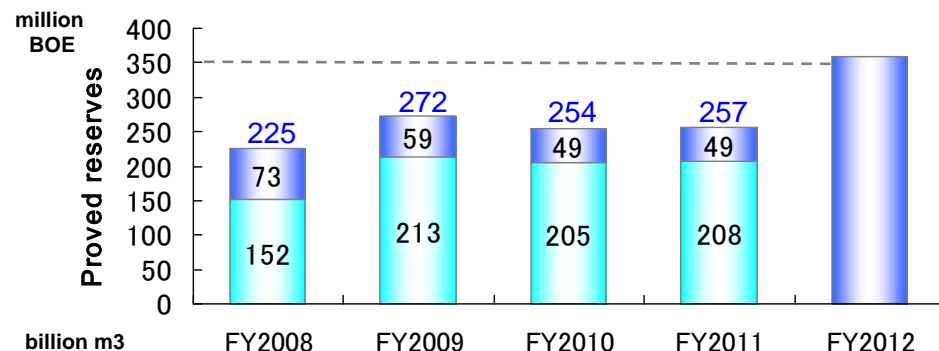
**2.0 billion m3 by FY2014**  
(On a consolidated basis including satellite systems supply)

- Growing demand for natural gas (Pipeline and satellite system supply)

**Target 3**  
Sales of natural gas and domestically produced crude oil

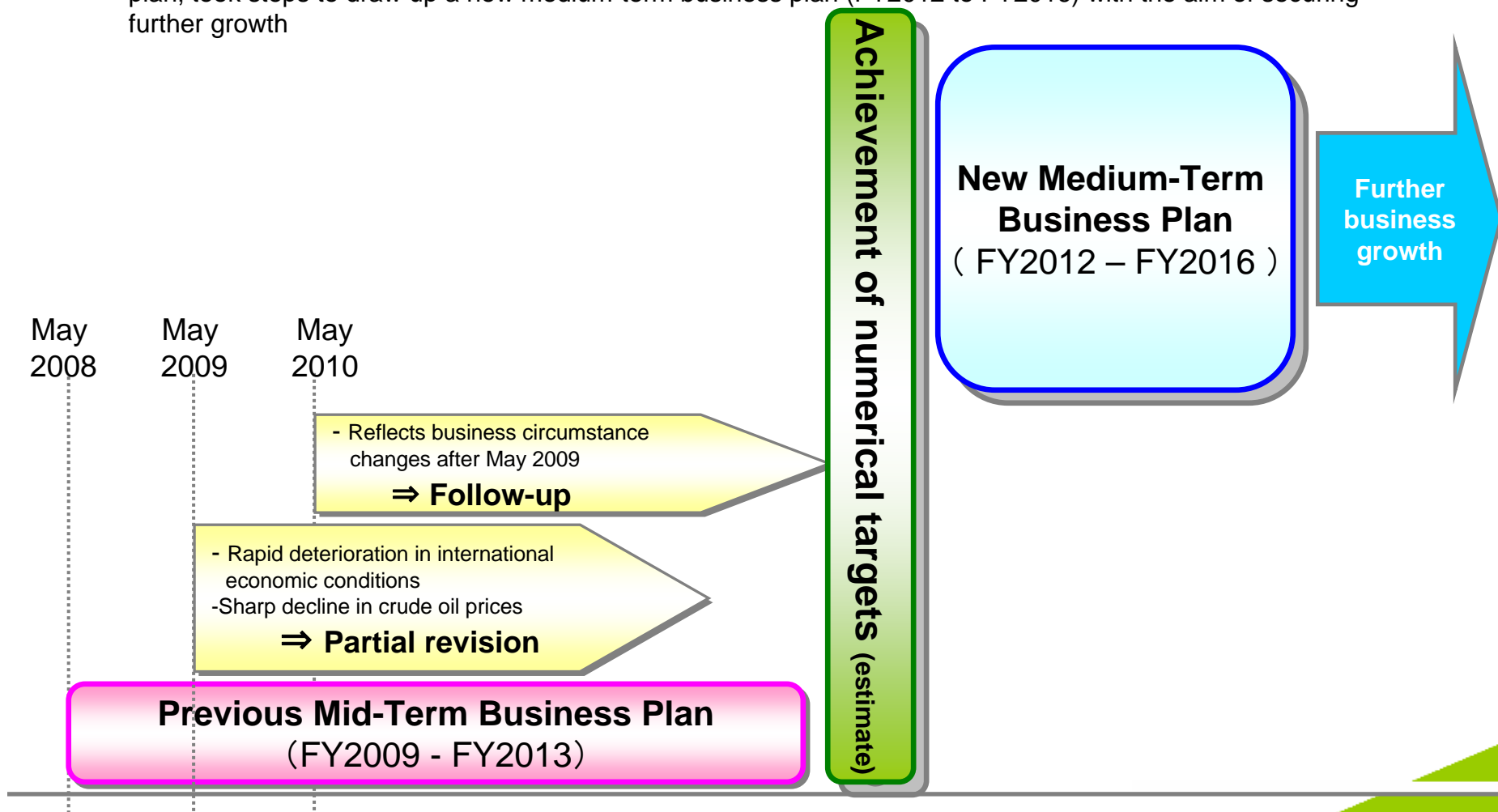
**¥110 billion by FY2013**  
(On a consolidated basis including satellite systems supply)

- Review of the forecast crude oil price (\$80/bbl→\$90/bbl)
- Introduction of a feedstock cost adjustment systems for mixed supplies



## I -2. Positioning of the New Medium-Term Business Plan

- Drawing on the level of achievement against numerical targets established under the previous mid-term business plan, took steps to draw up a new medium-term business plan (FY2012 to FY2016) with the aim of securing further growth



## II-1. JAPEX' s Perception of the Business Environment and Preconditions

### Perceptions of the Business Environment

#### **An increasingly competitive resource development environment**

- Growing nationalism in oil and gas producing countries
- Sharp increase in the energy prices fueled by such factors as pro-democracy movements in the Middle east and North Africa
- A return to fossil fuels in the aftermath of the Great East Japan Earthquake

#### **Intense competition in the domestic natural gas business**

- Aggressive natural gas infrastructure development by competitive companies
- Escalating difficulty in procuring supplies of LNG in the aftermath of the Great East Japan Earthquake
- Deregulation in line with structural reforms in the gas business

#### **Trends in energy prices**

- Marked increase in crude oil prices from 2004; Record high in July 2008
- A sharp drop after July 2008; indications of a steady recovery
- Increased volatility in both crude oil and LNG prices

#### **Growing social awareness toward environmental issues**

- Commonly held GHG (Greenhouse Gas) reduction goal leading up to 2050
- GHG reduction efforts triggering new opportunities for business growth
- The direction of long-term GHG reduction initiatives to remain unchanged following the Great East Japan Earthquake

Note: Taking into consideration current uncertainty surrounding the effects of the Great East Japan Earthquake on the Company's business, JAPEX has not factored in any explicit impact for the duration of the plan from fiscal 2013 and beyond.

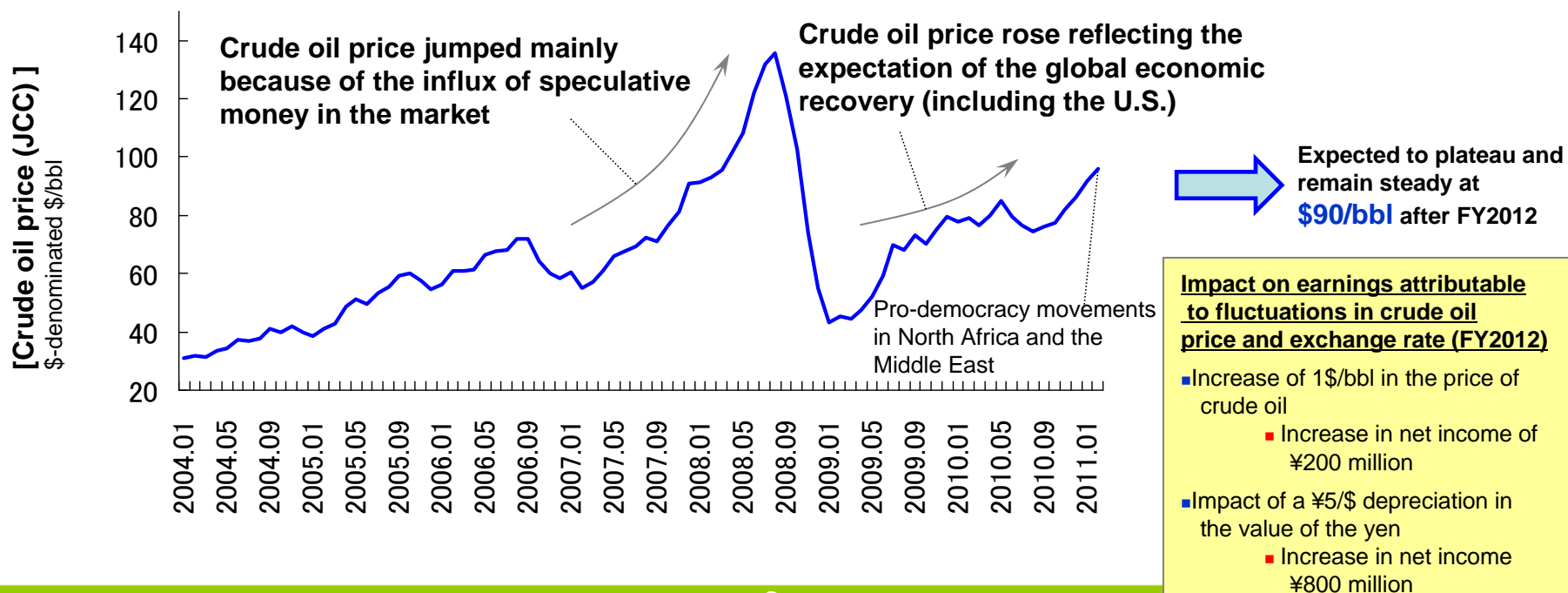
## II-2 JAPEX' s Perception of the Business Environment and Preconditions assumptions regarding crude oil price and exchange rate

■ Taking into consideration the current high level of crude oil price and the assumption that price would continue to hover at current levels for the foreseeable future, JAPEX has identified the following crude oil price and exchange rate projections:

- **Crude oil price** : Expected to plateau and remain steady at **\$90/bbl** after FY2012
- **Exchange rate** : Expected to maintain steady at **¥90/\$** after FY2013

### Preconditions of the New Medium-Term Business Plan

	FY11 (a)	FY12 (e)	FY13 (e)	FY14 (e)	FY15 (e)
Crude oil price (\$/bbl)	82.69	90	90	90	90
Exchange rate (¥/\$)	86.24	85	90	90	90

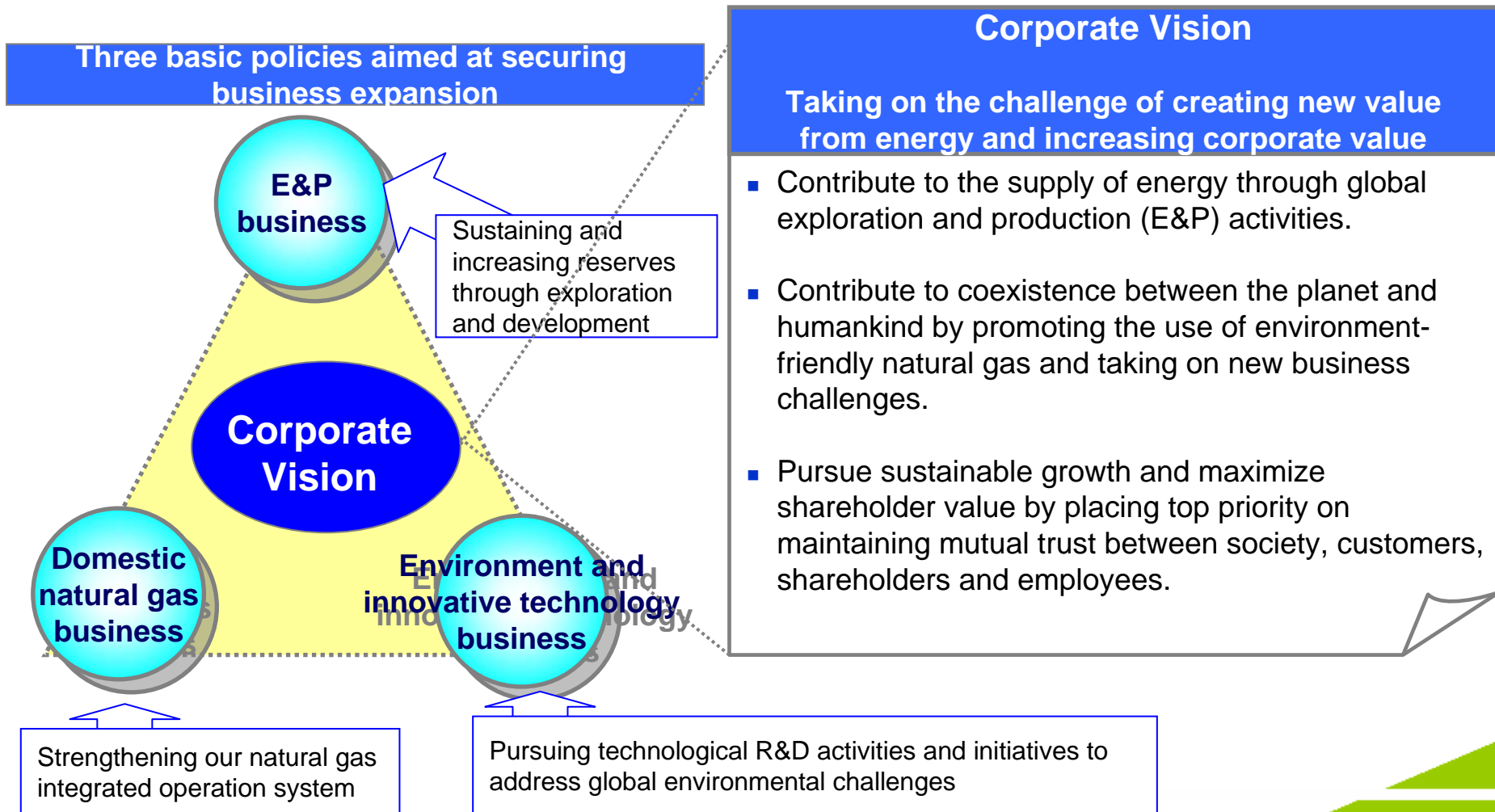


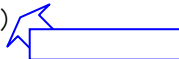


# III-1. Corporate Vision and Basic Strategies for JAPEX Expansion

## Three basic policies for JAPEX expansion

- JAPEX's overarching corporate vision and three basic policies remain unchanged



Note1)  : Business targets identified at the time the previous mid-term business plan (FY2009 to FY2013) was prepared

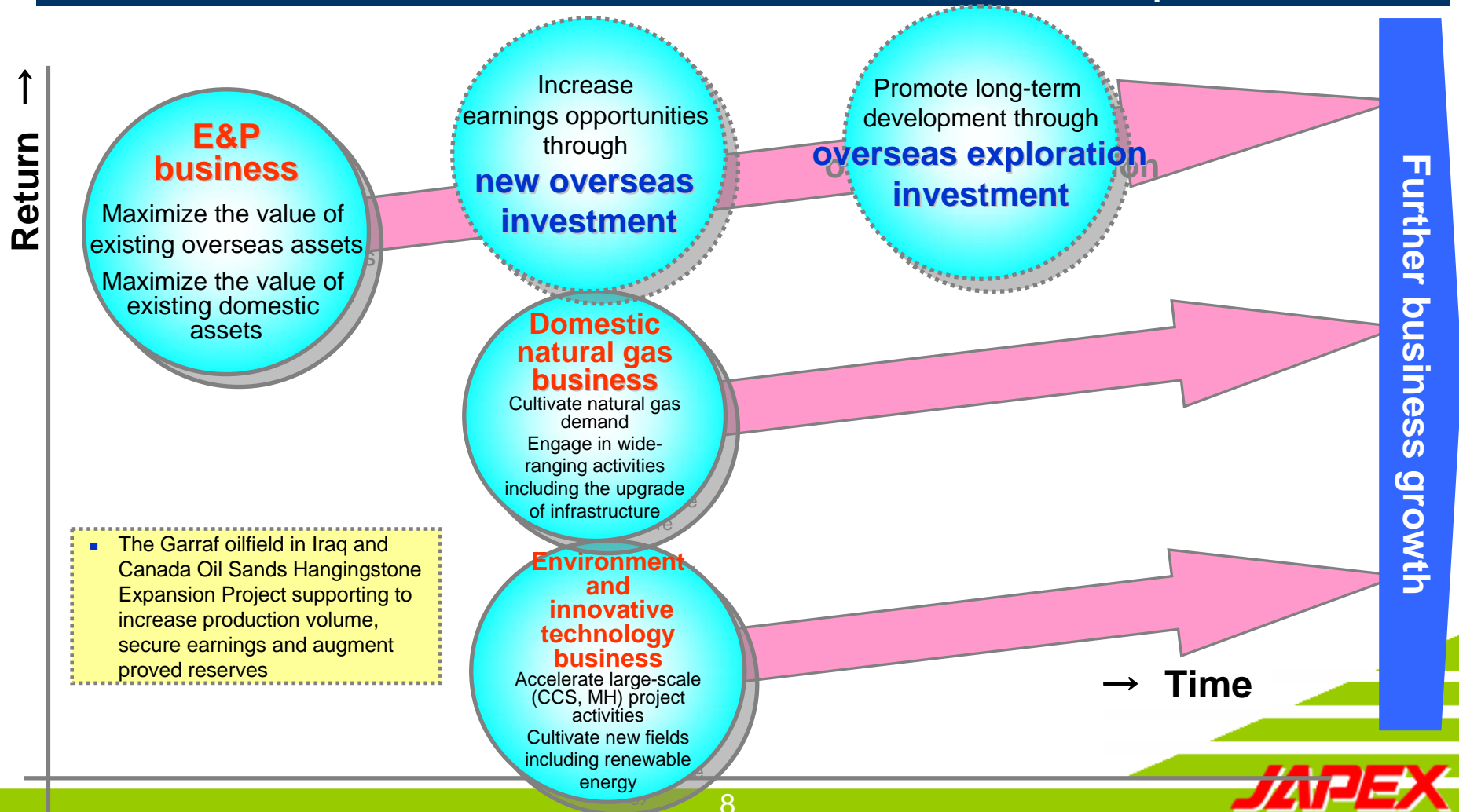
Note2) E&P: Exploration and Production

## III-2. Corporate Vision and Basic Strategies for JAPEX Expansion

### Growth Story

- While positioning E&P at the Company's main activities, endeavor to increase business opportunities by shifting to E&P activities overseas and pursuing new investment in domestic natural gas as well as environment and innovative technology as the means to help realize business expansion

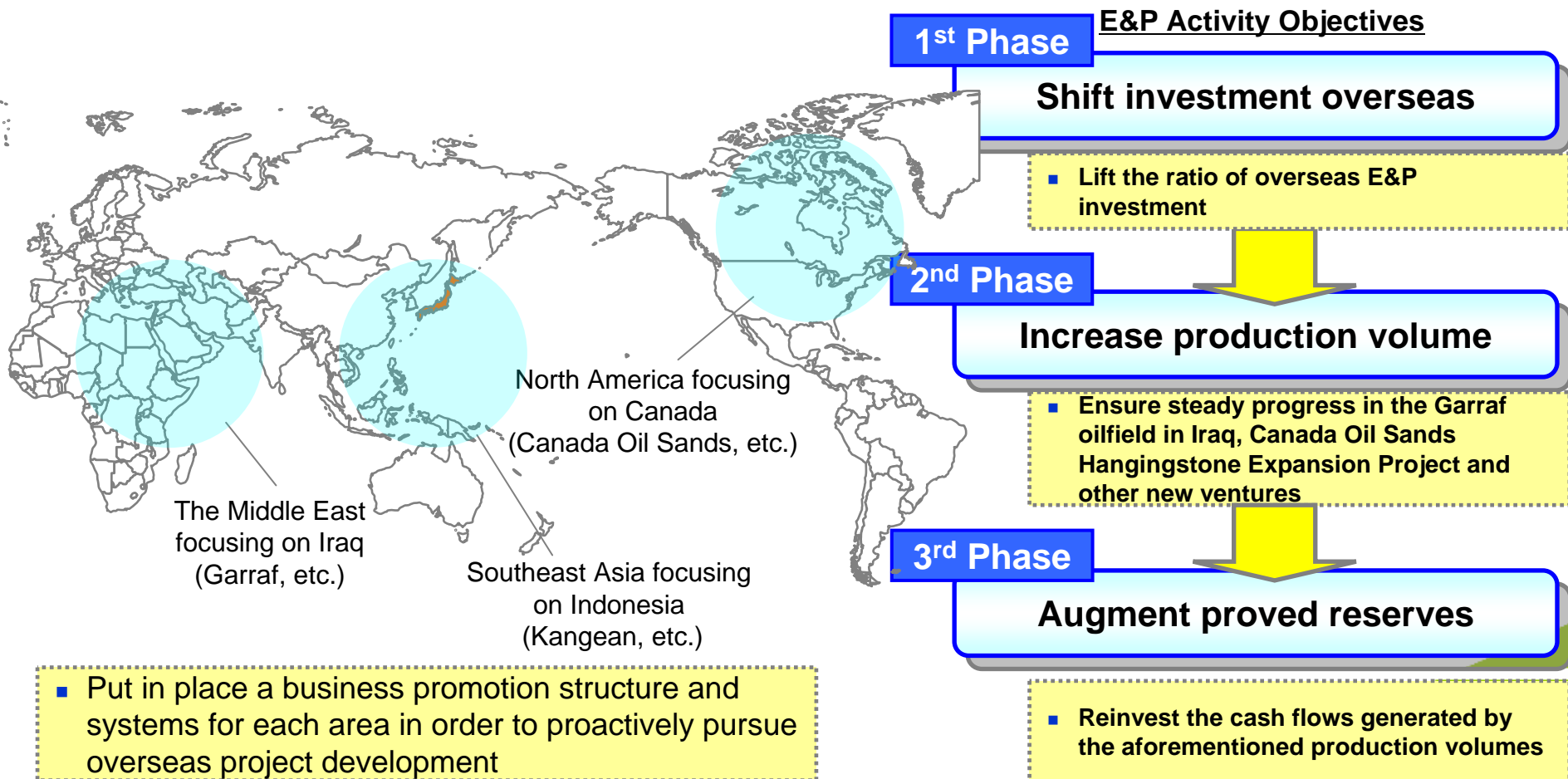
#### Growth scenario under the new medium-term business plan



# IV-1. Growth Initiatives ① E&P Activities (1/2)

- Focusing particularly on a shift overseas, organize E&P activities into three phases over the next decade and establish clearly defined objectives for each phase

## Overseas E&P activities under the new medium-term business plan



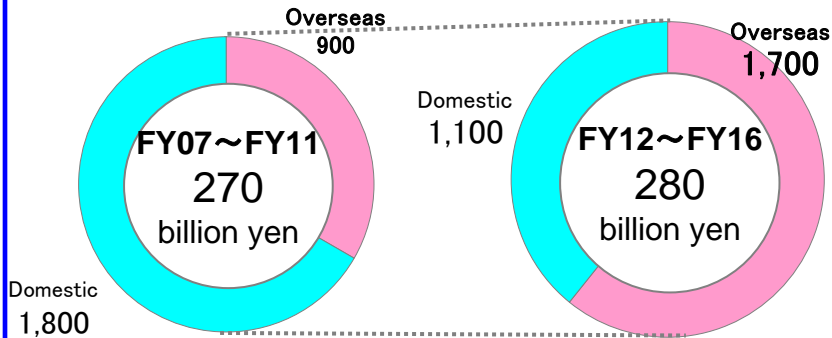
# IV-2. Growth Initiative

## ① E&P Activities (2/2)

### Objective 1:

#### Shift investment overseas (FY2013 to FY2016)

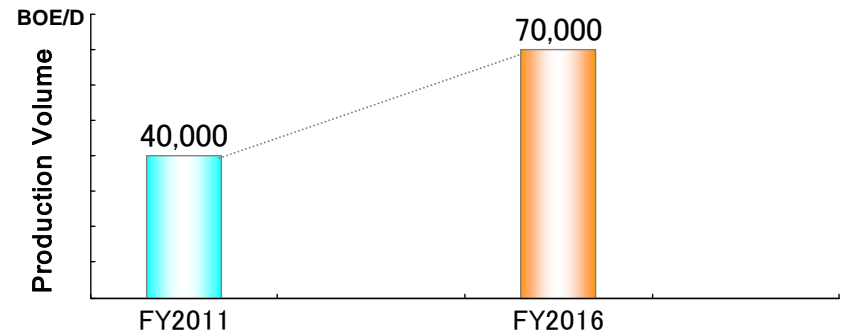
Lift overall overseas investment as a ratio of the E&P investment portfolio from the approximate 30% recorded over the past five year to around 60%



Note: Including investments through loans to equity-method affiliates

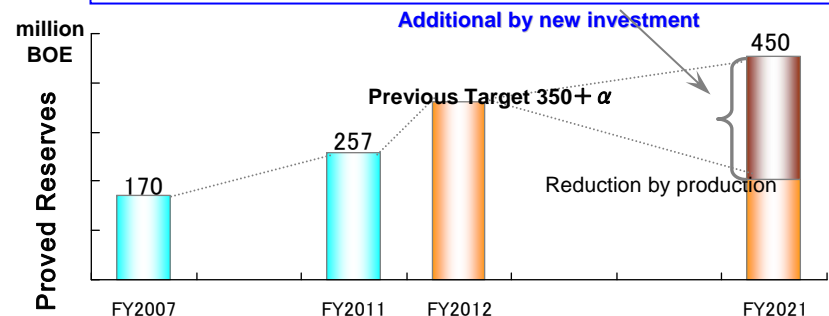
### Objective 2: Increase production volumes

Ensure the shift to production and cash in from development projects slated for between fiscal 2012 and fiscal 2016



### Objective 3: Increase proved reserves

Further increases in proved reserves projected through the reinvestment of cash flows generated from overseas projects

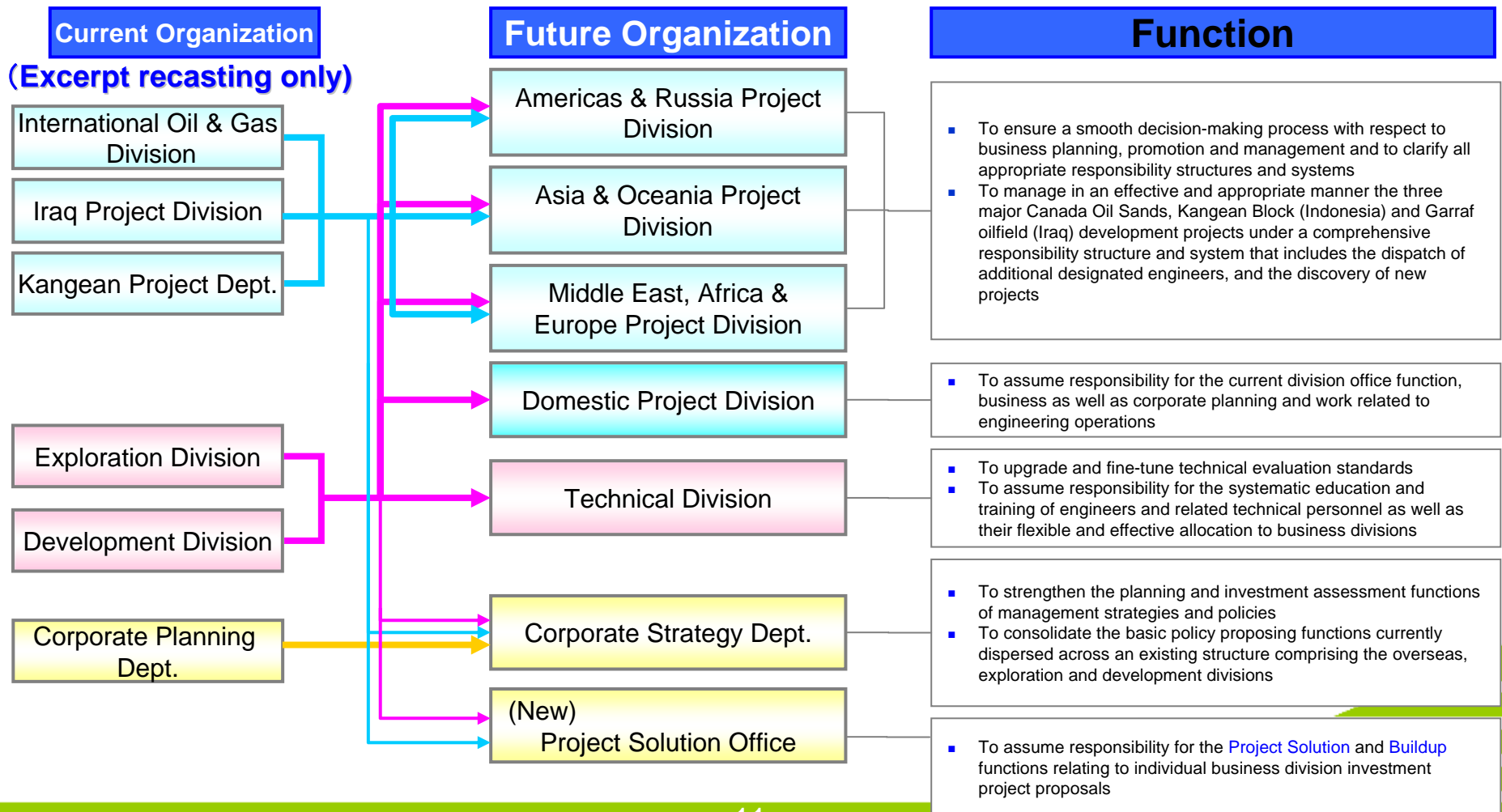


Note) Above "Production volume" and "Proved Reserves" are equivalent to JAPEX group's interest.

## [Reference] Development of the E&P business structure (Effective from June 24) or Restructuring of the E&P business organization

- Plans are in place to implemented the following organizational structure as a part of efforts to expand earnings through aggressive investment in overseas E&P businesses and the establishment of a robust earnings platform

### Basic concept: Development of E&P business structure



## IV-3. Growth Initiatives

## ② Domestic Natural Gas Business

- Contribute to the growing use of natural gas (amid, however, an uncertain business environment)

### Domestic natural gas business under the new medium-term business plan

#### Domestic natural gas activities

FY2012

Expectations of achieving a natural gas sales volume of 2.0 billion m3

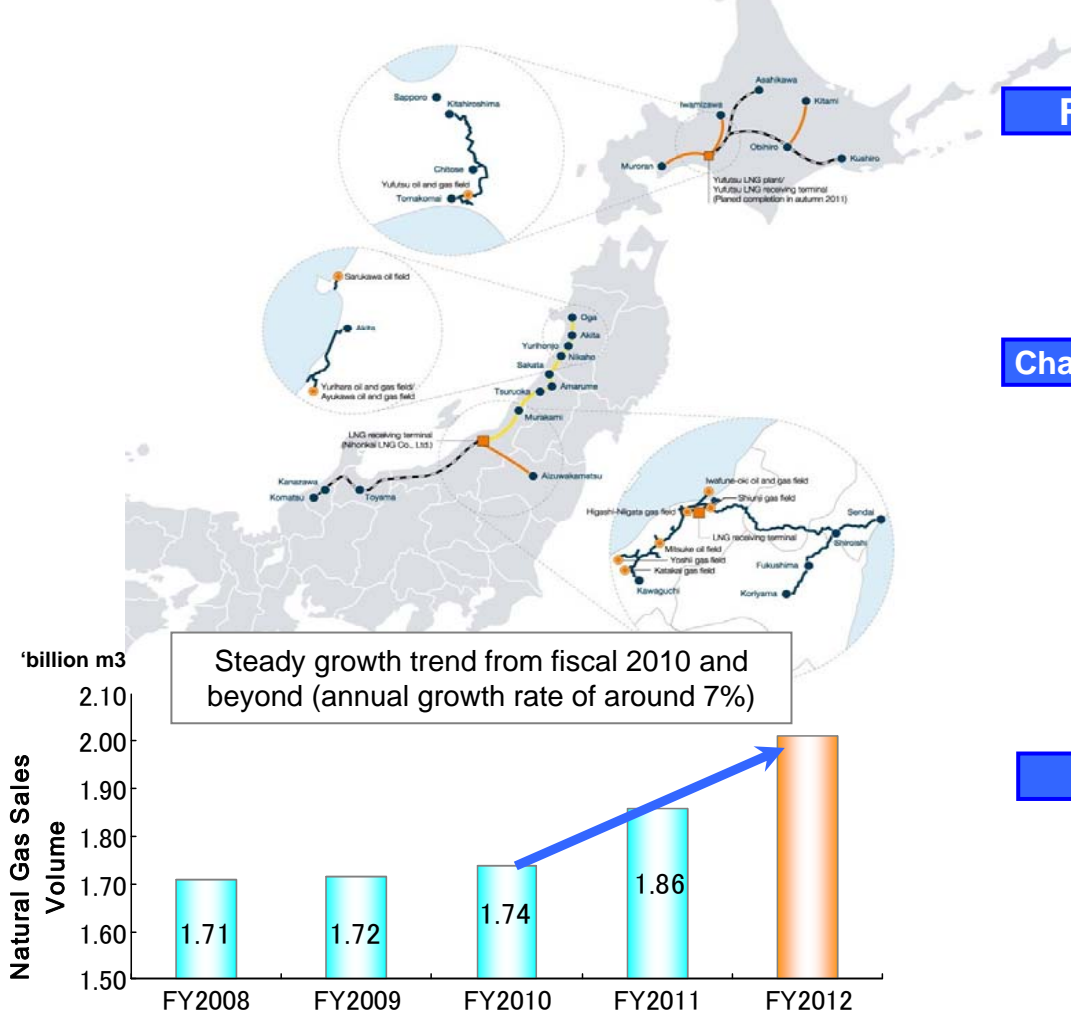
Changing factors in future

Uncertainties surrounding the business environment due largely to the Great East Japan Earthquake and other factors

Decrease in Hokkaido natural gas sales volume from fiscal 2013 and beyond

Future initiatives

In order to contribute to the growing use of natural gas, cultivate demand and focus on infrastructure and other development while endeavoring to optimally adjust sales prices



# IV-4. Growth Initiatives

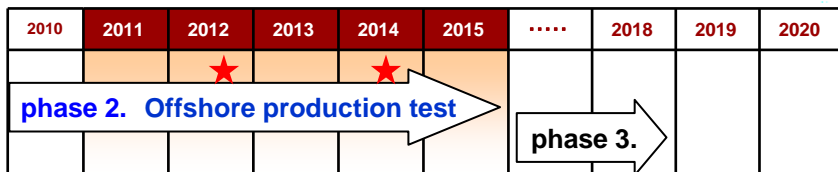
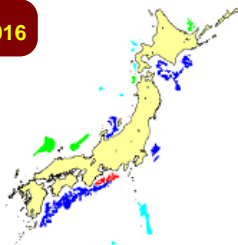
## ③ Environment and Innovative Technology Projects

- Engage in full-fledged commercialization activities as one of the three basic policies that underpin JAPEX's earnings platform

### Environment and innovative technology activities under the new medium-term business plan

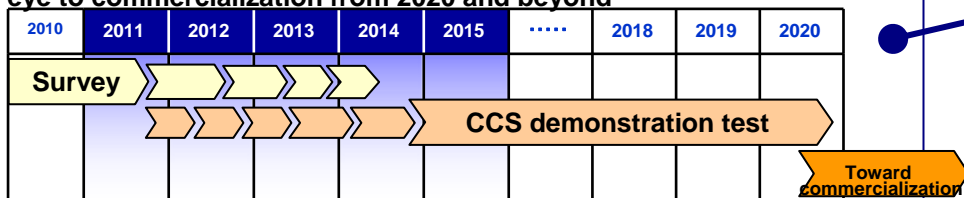
#### Methane hydrate Phase 2 Fiscal 2010 to Fiscal 2016

- Plans in place to conduct two offshore production tests in the Tobu Nankai trough
- Commissioned to serve as project operator, JAPEX will drive business promotion forward
- Drawing on the results of phase 2, undertake a comprehensive evaluation from fiscal 2017



#### CCS Demonstration Project

- Japan CCS Co., Ltd. established in 2008; Joint private- and public-sector business promotion
- Preliminary surveys undertaken in three domestic location including exploration wells off the Tomakomai coast
- Considerable emphasis placed on the early implementation of CCS demonstration tests with an eye to commercialization from 2020 and beyond



Note: The aforementioned schedule is based on projected scenarios by the Company based on current conditions and events. There are no definitive plans currently in place.

#### Environment and innovative technology activity objectives

##### Existing activities

- Striving to reduce the environmental impact of our operations and becoming proactively involved in tree-planting programs.
- Promoting technological R&D of CCS, methane hydrate, GTL and DME, etc.

##### Apr.2010

- Established the Environment and Innovative Technology Projects Division
- Strengthen project promotions and the structure for uncovering opportunities

##### Future strategies

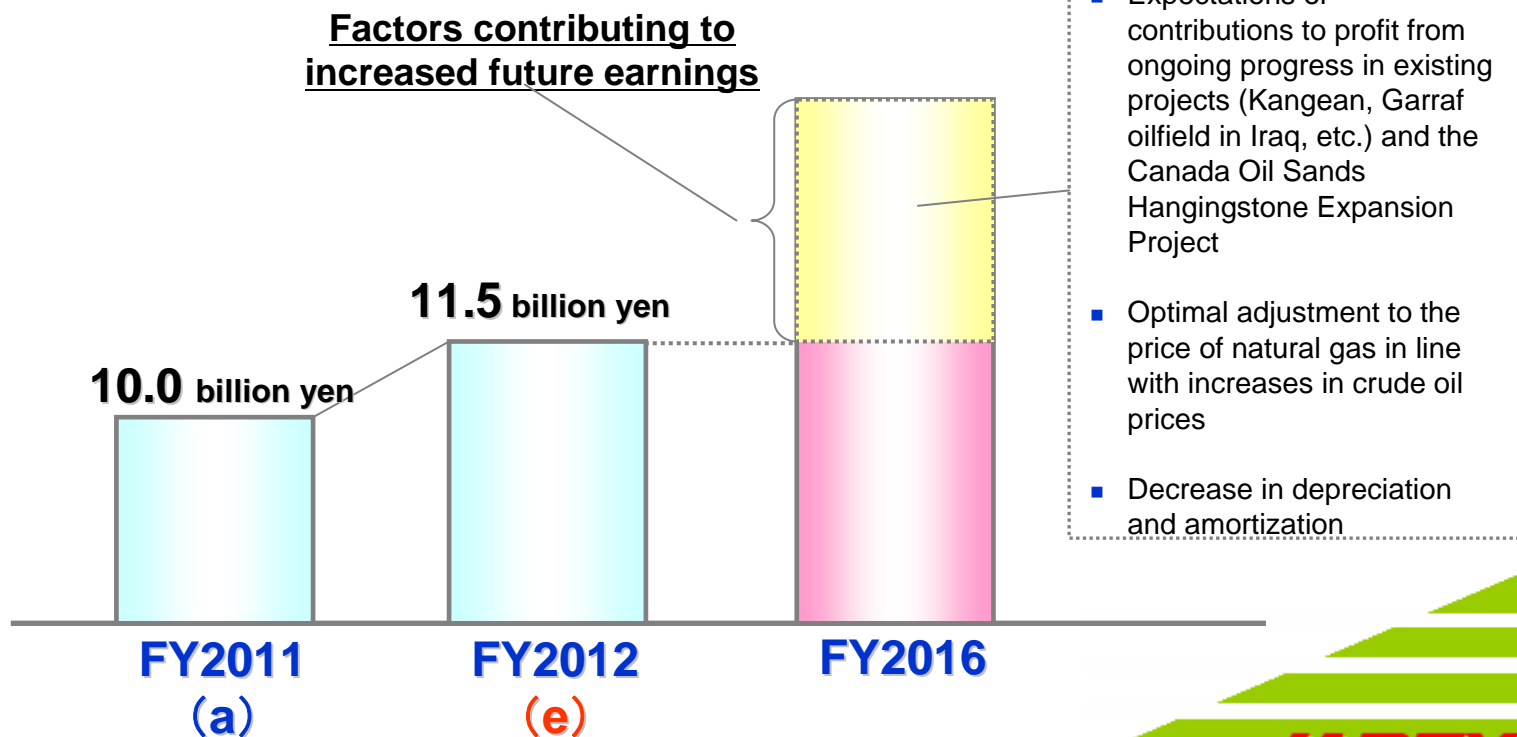
- Accelerate large-scale project-oriented activities
  - ✓ Methane hydrate phase 2
  - ✓ Pursue domestic CCS demonstration testing
  - ✓ Participate in overseas CCS projects
- Cultivate new fields including renewable energy
  - ✓ Target commercialization by fiscal 2016

## V-1. Consolidated Profit and Loss / Investment Portfolio

### Consolidated Profit and Loss

- Projected substantial recovery in the Company's consolidated profit and loss due to a variety of factors including the decrease in depreciation and amortization, adjustment to natural gas sales prices and contributions from the Canada Oil Sands Hangingstone Expansion Project

#### Forecast consolidated profit and loss (net income)

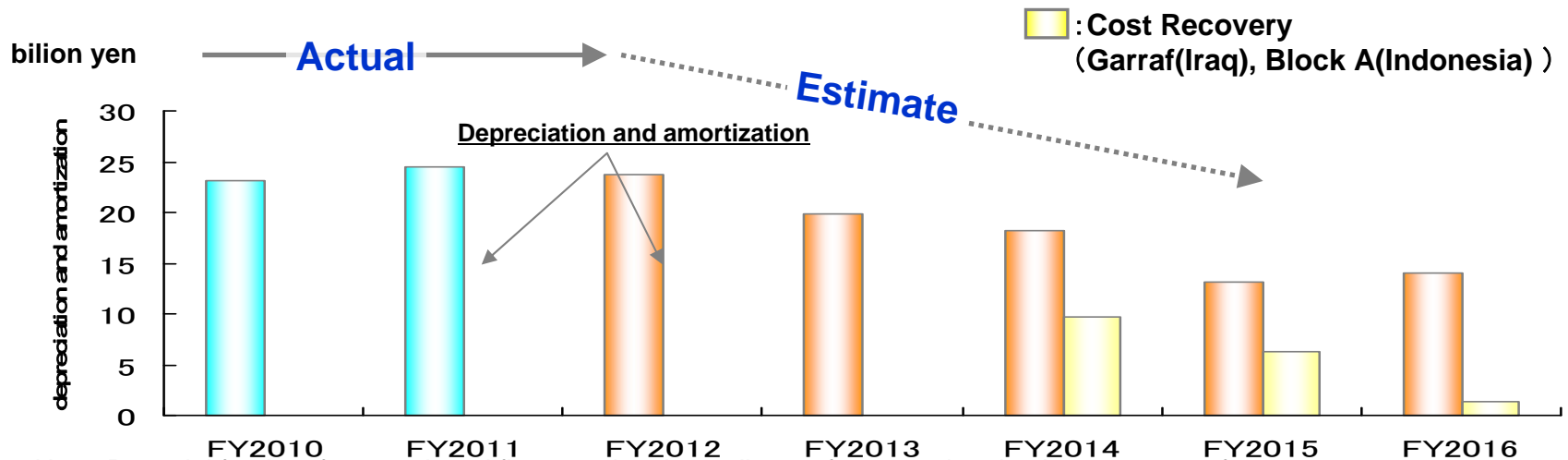




## [Reference] Forecast Depreciation and Amortization

- Depreciation and amortization on a consolidated basis expected to peak (approximately ¥25.0 billion) leading up to fiscal 2011 and to decline thereafter
  - Due largely to the completion of a round of investment aimed at expanding domestic production capacity

### Forecast Depreciation and Amortization



Note: Potential for the aforementioned figure to rise depending on future exploration investment performance

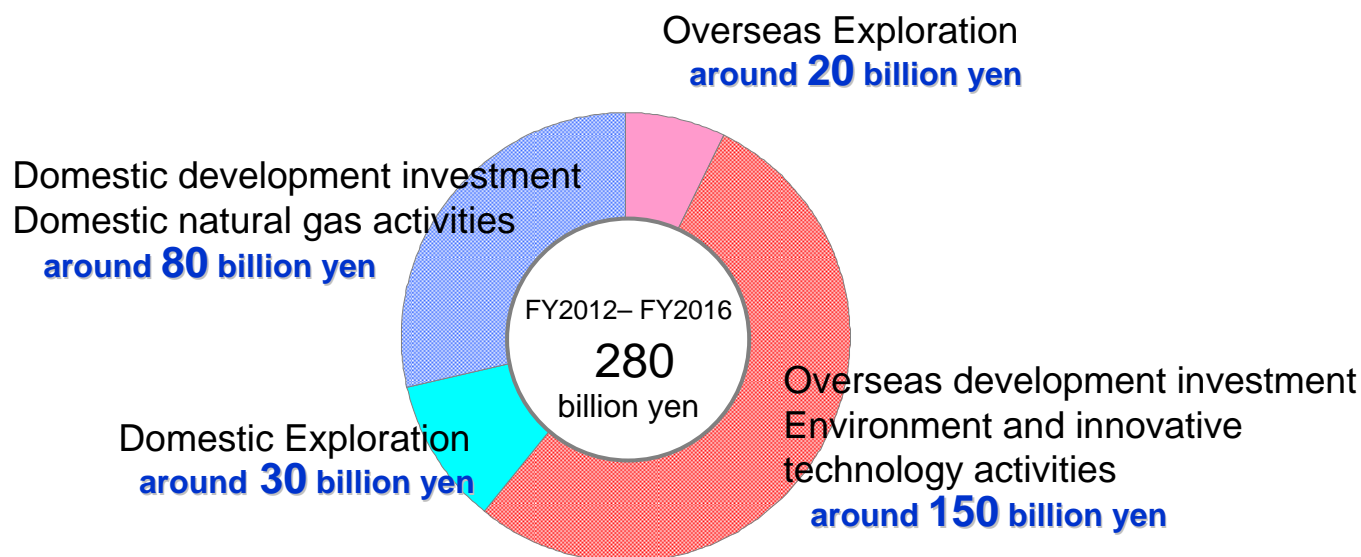
Besides depreciation and amortization, cost recovery will occur for the Garraf (Iraq) and Block A (Indonesia) when production commencement. They will offset by receiving production income.

## V-2. Consolidated Profit and Loss / Investment Portfolio

### Investment Portfolio

- Projected investment scale of approximately ¥280.0 billion taking into consideration free cash flows between fiscal 2012 and fiscal 2016 together with external funds procured
- The investment portfolio is presented as follows

#### Investment portfolio (Image)



## VI . Summary

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- Expectations that the objectives identified in the mid-term business plan announced in May 2008 will be achieved by fiscal 2012
- Steps taken to draw up a medium-term business plan covering the period from fiscal 2012 to fiscal 2016
- Business expansion across the three core business pillars of E&P, domestic natural gas and environment and innovative technology
- Aiming for sustainable growth particularly in E&P activities, JAPEX will pursue the following initiatives aimed at shifting business overseas
  - ◆ Lift the ratio of overseas E&P investment (approximately 60% over the next five years)
  - ◆ Increase production volume mainly overseas by ensuring steady progress in such activities as the Garraf oilfield in Iraq and the Canada Oil Sands Expansion Project as well as the shift of production overseas (70,000 BOED by fiscal 2016)
  - ◆ Further augment proved reserves by reinvesting generated cash flows in new projects(450 million BOE by fiscal 2021)
- Steadily implement domestic natural gas activities and pursue environment and innovative technology commercialization in concert with E&P activities

## Cautionary statement

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Any information contained herein with respect to JAPEX's plans, estimates, strategies and other statements that are not historical facts are forward-looking statements about the future performance of JAPEX. Readers should be aware that actual results and events may differ substantially from these projections due to various factors.

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