

# Consolidated Financial Results for the Nine Months Ended December 31, 2014 <under Japanese GAAP>

February 6, 2015

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 12, 2015  
 Scheduled date to commence dividend payments: –  
 Presentation of supplementary material on quarterly financial results: Yes  
 Holding of quarterly financial results presentation meeting: None

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

## 1. Consolidated financial results for the nine months ended December 31, 2014

(April 1, 2014 – December 31, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
December 31, 2014	229,431	27.3	23,880	49.5	40,573	35.1	29,342	61.6
December 31, 2013	180,259	9.6	15,977	113.7	30,030	157.9	18,161	–

Note: Comprehensive income: Nine months ended December 31, 2014: 32,617 million yen (9.8%)

Nine months ended December 31, 2013: 29,711 million yen (–%)

	Net income per share	Diluted net income per share
Nine months ended	Yen	Yen
December 31, 2014	513.41	–
December 31, 2013	317.77	–

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2014	706,120	527,159	63.9
As of March 31, 2014	663,038	496,915	63.7

Reference: Equity As of December 31, 2014: 451,146 million yen As of March 31, 2014: 422,336 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, 2014	–	25.00	–	25.00	50.00
Fiscal year ending March 31, 2015	–	25.00	–	–	–
Fiscal year ending March 31, 2015 (Forecasts)	–	–	–	25.00	50.00

Note: Revisions to the forecasts of cash dividends most recently announced: None

3. Consolidated financial forecasts for the fiscal year ending March 31, 2015 (April 1, 2014 – March 31, 2015)  
(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2015	324,378	17.3	34,681	40.8	48,819	11.2	35,374	21.9	618.95

Note: Revisions to the consolidated financial forecasts most recently announced: None

\* 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 “(2) Application of specific accounting for preparing quarterly consolidated financial statements” of “2. Matters regarding summary information (notes)” on page 4 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) Changes in accounting policies, changes in accounting estimates, and restatement” of “2. Matters regarding summary information (notes)” on page 4 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 December 31, 2014 57,154,776 shares

As of March 31, 2014 57,154,776 shares

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

As of December 31, 2014 2,139 shares

As of March 31, 2014 2,139 shares

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

Nine months ended December 31, 2014 57,152,637 shares

Nine months ended December 31, 2013 57,152,637 shares

\* Indication regarding execution of quarterly review procedures

At the time of disclosure of this quarterly financial results report, the quarterly review procedures for the quarterly consolidated financial statements in accordance with the Financial Instruments and Exchange Act are in progress.

\* 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, 2014” on page 3 of the attached material to the quarterly financial results report.

(Method of accessing supplementary material on quarterly financial results)

On February 6, 2015 (Friday), JAPEX plans to post supplementary material on its website.

(Attached Material)

## 1. Qualitative information regarding settlement of accounts for the nine months ended December 31, 2014

### (1) Explanation of operating results

During the nine months ended December 31, 2014, net sales was at ¥229,431 million, an increase of ¥49,172 million (+27.3%) year on year. Gross profit increased by ¥5,807 million (+12.4%) year on year to ¥52,681 million. The main factors behind the year-on-year increases in net sales and gross profit were increases in sales volumes of crude oil overseas and natural gas overseas.

Although overseas exploration expenses increased, domestic exploration expenses decreased, and as a result exploration expenses decreased by ¥3,509 million (-45.6%) year on year to ¥4,182 million. Selling, general and administrative expenses increased by ¥1,413 million (+6.1%) year on year to ¥24,617 million. As a result, operating income increased by ¥7,902 million (+49.5%) year on year to ¥23,880 million.

Ordinary income amounted to ¥40,573 million, an increase of ¥10,542 million (+35.1%) year on year, mainly because of an increase in foreign exchange gains.

Income before income taxes and minority interests increased by ¥18,583 million (+84.6%) year on year to ¥40,561 million reflecting the absence of impairment loss that was recorded as extraordinary losses in the corresponding period of the previous year. Although income taxes and minority interests in income increased, net income came to ¥29,342 million, an increase of ¥11,181 million (+61.6%) year on year.

Below is a breakdown of sales.

#### (i) E&P

Net sales from E&P (including liquefied natural gas (LNG) and bitumen) came to ¥186,689 million, an increase of ¥47,710 million (+34.3%) year on year. This was mainly the result of increases in sales volumes of crude oil overseas and natural gas overseas.

#### (ii) Contract Services

Net sales from contract services (involved in drilling and geological surveys) came to ¥6,277 million, a decrease of ¥48 million (-0.8%) 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 ¥36,464 million, an increase of ¥1,510 million (+4.3%) year on year.

### (2) Explanation of financial position

At the end of the third quarter, as compared to the end of the previous fiscal year, total assets increased by ¥43,082 million to ¥706,120 million. The main factor behind this increase was an increase of ¥57,459 million in property, plant and equipment due to an increase in construction in progress.

Total liabilities increased by ¥12,838 million from the previous fiscal year-end to ¥178,961 million. The main factor behind this increase was an increase of ¥14,276 million in current liabilities due to an increase in short-term loans payable.

Total net assets increased by ¥30,244 million from the previous fiscal year-end to ¥527,159 million. The main factor behind this increase was an increase of ¥27,782 million in retained earnings.

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

The consolidated financial forecasts have been left unchanged from the forecasts for the fiscal year ending March 31, 2015, which were announced on November 7, 2014. This is the result of an examination made in consideration of the financial results for the nine months ended December 31, 2014.

## 2. Matters regarding summary information (notes)

### (1) Changes in significant subsidiaries during the nine months under review

No items to report

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

#### a. 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.

#### b. 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 income before income taxes and minority interests for the fiscal year including the third quarter, and next by multiplying the quarterly income before income taxes and minority interests 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) Changes in accounting policies, changes in accounting estimates, and restatement

#### Changes in accounting policies

##### (Application of Accounting Standard for Retirement Benefits and its Guidance)

For the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012), the Company has applied the provisions set forth in the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits from the first quarter ended June 30, 2014, and reviewed the determination of retirement benefit obligations and current service cost. Accordingly, the Company changed the method of attributing expected benefit to periods from the straight-line basis to the benefit formula basis as well as amended the calculating method of the discount rate.

Application of the Accounting Standard for Retirement Benefits and its Guidance is in line with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits. In accordance with such measures, the effect of the change in the determination of retirement benefit obligations and current service cost has been added to or deducted from retained earnings as of the beginning of the nine months ended December 31, 2014.

As a result of this change, as of the beginning of the nine months ended December 31, 2014, net defined benefit liability decreased ¥1,874 million and retained earnings increased ¥1,297 million. In addition, the effect of these changes on operating income, ordinary income and income before income taxes and minority interests for the nine months ended December 31, 2014 is immaterial.

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

(Millions of yen)

	As of March 31, 2014	As of December 31, 2014
<b>Assets</b>		
Current assets		
Cash and deposits	81,031	78,736
Notes and accounts receivable - trade	37,222	30,710
Securities	41,203	44,140
Merchandise and finished goods	4,653	4,748
Work in process	128	478
Raw materials and supplies	6,285	6,582
Other	24,731	25,952
Allowance for doubtful accounts	(48)	(41)
Total current assets	195,209	191,309
Non-current assets		
Property, plant and equipment		
Construction in progress	88,541	114,462
Other, net	112,011	143,549
Total property, plant and equipment	200,552	258,012
Intangible assets		
Other	11,365	11,561
Total intangible assets	11,365	11,561
Investments and other assets		
Investment securities	190,765	195,968
Other	69,468	54,058
Allowance for doubtful accounts	(39)	(39)
Allowance for overseas investment loss	(4,284)	(4,749)
Total investments and other assets	255,910	245,237
Total non-current assets	467,828	514,811
Total assets	663,038	706,120

(Millions of yen)

	As of March 31, 2014	As of December 31, 2014
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	23,610	9,700
Short-term loans payable	28,169	42,845
Provision	370	550
Other	31,304	44,634
Total current liabilities	83,454	97,731
Non-current liabilities		
Long-term loans payable	21,636	21,822
Deferred tax liabilities	32,509	33,459
Provision	936	964
Net defined benefit liability	6,845	4,379
Asset retirement obligations	16,001	16,478
Other	4,738	4,125
Total non-current liabilities	82,668	81,229
Total liabilities	166,123	178,961
<b>Net assets</b>		
Shareholders' equity		
Capital stock	14,288	14,288
Retained earnings	318,433	346,216
Treasury shares	(10)	(10)
Total shareholders' equity	332,711	360,494
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	84,856	85,330
Deferred gains or losses on hedges	(56)	164
Foreign currency translation adjustment	5,166	5,442
Remeasurements of defined benefit plans	(340)	(284)
Total accumulated other comprehensive income	89,624	90,652
Minority interests	74,579	76,013
Total net assets	496,915	527,159
<b>Total liabilities and net assets</b>	<b>663,038</b>	<b>706,120</b>

(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, 2013 (April 1, 2013 – December 31, 2013)	Nine months ended December 31, 2014 (April 1, 2014 – December 31, 2014)
Net sales	180,259	229,431
Cost of sales	133,385	176,750
Gross profit	46,874	52,681
Exploration expenses		
Exploration expenses	7,841	4,380
Exploration subsidies	(149)	(197)
Total exploration expenses	7,692	4,182
Selling, general and administrative expenses	23,204	24,617
Operating income	15,977	23,880
Non-operating income		
Interest income	1,833	1,717
Dividend income	2,247	2,312
Share of profit of entities accounted for using equity method	7,396	8,920
Foreign exchange gains	1,414	4,372
Other	2,182	767
Total non-operating income	15,074	18,089
Non-operating expenses		
Interest expenses	560	535
Provision for allowance for losses on overseas investments	–	476
Other	461	384
Total non-operating expenses	1,021	1,397
Ordinary income	30,030	40,573
Extraordinary income		
Subsidy income	40	42
Other	0	0
Total extraordinary income	41	42
Extraordinary losses		
Loss on retirement of non-current assets	107	53
Impairment loss	7,983	–
Other	2	–
Total extraordinary losses	8,093	53
Income before income taxes and minority interests	21,978	40,561
Income taxes	3,797	8,797
Income before minority interests	18,180	31,764
Minority interests in income	19	2,421
Net income	18,161	29,342

## Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Nine months ended December 31, 2013 (April 1, 2013 – December 31, 2013)	Nine months ended December 31, 2014 (April 1, 2014 – December 31, 2014)
Income before minority interests	18,180	31,764
Other comprehensive income		
Valuation difference on available-for-sale securities	7,343	468
Deferred gains or losses on hedges	(160)	226
Foreign currency translation adjustment	4,341	(44)
Remeasurements of defined benefit plans, net of tax	–	55
Share of other comprehensive income of entities accounted for using equity method	5	147
Total other comprehensive income	11,530	853
Comprehensive income	29,711	32,617
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	29,150	30,370
Comprehensive income attributable to minority interests	561	2,247



(3) Notes to consolidated financial statements

(Notes on premise of going concern)

No items to report

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

No items to report

#### 4. Supplemental information

##### Status of production and sales

###### 1. Production

		Nine months ended December 31, 2013 (April 1, 2013 – December 31, 2013)	Nine months ended December 31, 2014 (April 1, 2014 – December 31, 2014)	(Reference) Fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)
E&P	Crude oil (kl)	318,779 (17,441)	1,311,646 (1,017,611)	828,870 (424,040)
	Natural gas (thousand m <sup>3</sup> )	796,253 (97,460)	959,256 (308,669)	1,104,533 (170,549)
	LNG (t)	12,235	1,000	12,235
	Bitumen (kl)	258,174 (258,174)	244,617 (244,617)	344,757 (344,757)

- 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

		Nine months ended December 31, 2013 (April 1, 2013 – December 31, 2013)		Nine months ended December 31, 2014 (April 1, 2014 – December 31, 2014)		(Reference) Fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)	
		Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)
E&P	Crude oil (kl)	955,164	66,389	1,466,538	98,091	1,559,888	108,408
	Natural gas (thousand m <sup>3</sup> )	985,960	49,760	1,219,348	59,220	1,418,963	71,584
	LNG (t)	147,954	14,551	204,356	20,773	268,510	26,202
	Bitumen (kl)	257,312	8,277	244,984	8,603	342,565	10,962
Subtotal			138,978		186,689		217,157
Contract services			6,326		6,277		8,740
Other businesses	Oil products /merchandise		29,304		30,960		42,860
	Others		5,649		5,503		7,830
Subtotal			34,953		36,464		50,691
Total			180,259		229,431		276,588

- 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.