

Consolidated Financial Results for the Nine Months Ended December 31, 2016 <under Japanese GAAP>

February 8, 2017

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

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 Listing: Tokyo Stock Exchange, First Section
 Securities code: 1662
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Scheduled date to file Quarterly Report: February 10, 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 nine months ended December 31, 2016

(April 1, 2016 – December 31, 2016)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2016	144,678	(22.8)	(1,676)	-	274	(95.9)	1,848	(71.0)
December 31, 2015	187,402	(18.3)	6,907	(71.1)	6,686	(83.5)	6,368	(78.3)

Note: Comprehensive income: Nine months ended December 31, 2016: (1,401) million yen (- %)
 Nine months ended December 31, 2015: (18,348) million yen (- %)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2016	32.35	-
December 31, 2015	111.43	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2016	718,019	493,531	59.5
As of March 31, 2016	707,601	495,317	59.5

Reference: Equity As of December 31, 2016: 427,304 million yen As of March 31, 2016: 421,009 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, 2016	-	25.00	-	25.00	50.00
Fiscal year ending March 31, 2017	-	5.00	-	-	-
Fiscal year ending March 31, 2017 (Forecasts)	-	-	-	-	-

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

Forecast of the fiscal year-end dividend and total of the annual dividends for the fiscal year ending March 31, 2017 has yet to be decided.

3. Consolidated financial forecasts for the fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017)
(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		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, 2017	210,349	(12.5)	(887)	–	3,571	(23.2)	4,959	137.2	86.76

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): Yes

Exclusion: one company (Japex Philippines Ltd.)

Note: For details, please refer to “(1) Changes in significant subsidiaries during the nine months under review” of “2. Matters regarding summary information (notes)” on page 4 of the attached material.

- (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, 2016 57,154,776 shares
As of March 31, 2016 57,154,776 shares
b. Number of treasury shares at the end of the period
As of December 31, 2016 2,139 shares
As of March 31, 2016 2,139 shares
c. Average number of shares during the period (cumulative from the beginning of the fiscal year)
Nine months ended December 31, 2016 57,152,637 shares
Nine months ended December 31, 2015 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, 2016” on page 4 of the attached material to the quarterly financial results report.

(Method of accessing supplementary material on quarterly financial results)

On February 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 nine months ended December 31, 2016

(1) Explanation of operating results

During the nine months ended December 31, 2016, net sales was ¥144,678 million, a decrease of ¥42,724 million (-22.8%) year on year. Gross profit was ¥20,668 million, a decrease of ¥16,796 million (-44.8%) year on year. The main factors behind the year-on-year decreases in net sales and gross profit were falls in sales prices of crude oil and natural gas, and decreases in sales volumes of domestically produced crude oil and domestic natural gas.

Exploration expenses was ¥1,104 million, a decrease of ¥5,230 million (-82.6%) year on year. This was mainly the result of a considerable decrease in overseas expenditures. Selling, general and administrative expenses was ¥21,240 million, a decrease of ¥2,981 million (-12.3%) year on year, mainly by the result of a considerable decrease in domestic expenditures. As a result, operating income deteriorated by ¥8,584 million year on year to an operating loss of ¥1,676 million (operating income of ¥6,907 million in the same period of the previous fiscal year).

Ordinary income decreased ¥6,412 million year on year (-95.9%) to ¥274 million. This was because of a turnaround from share of profit of entities accounted for using equity method to a share of loss of entities accounted for using equity method, despite positive factors such as the turnaround from foreign exchange losses in the same period of the previous fiscal year to foreign exchange gains.

Profit before income taxes decreased by ¥6,672 million to a loss before income taxes of ¥14 million. This was because of deteriorating ordinary income and the recording of provision for loss on business liquidation. Profit attributable to owners of parent decreased by ¥4,519 million (-71.0%) year on year to ¥1,848 million.

Below is a breakdown of sales.

(i) E&P

Net sales from E&P (including liquefied natural gas (LNG) and bitumen) came to ¥111,508 million, a decrease of ¥37,337 million (-25.1%) year on year. This was mainly the result of fall in sales price and decreases in sales volumes of domestically produced crude oil, overseas crude oil and domestic natural gas.

(ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥7,060 million, a decrease of ¥318 million (-4.3%) 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 ¥26,108 million, a decrease of ¥5,068 million (-16.3%) year on year.

(2) Explanation of financial position

At the end of the third quarter, total assets increased by ¥10,417 million to ¥718,019 million as compared to the end of the previous fiscal year. The main factors behind this increase were an increase of ¥15,239 million in total investments and other assets partly due to an increase in investment securities from an increase in market values of held shares, despite a decrease of ¥7,372 million in total property, plant and equipment partly due to a decrease in property, plant and equipment of overseas subsidiaries caused by the shift to yen appreciation in foreign exchange.

Total liabilities increased by ¥12,203 million from the previous fiscal year-end to ¥224,487 million. The main factors behind this increase were an increase in total current liabilities of ¥9,079 million partly due to an increase in accounts payable from purchases of product crude oil from overseas, and an increase in total non-current liabilities of ¥3,124 million partly due to an increase in deferred tax liabilities following an increase in market values of held shares.

Total net assets decreased by ¥1,785 million from the previous fiscal year-end to ¥493,531 million. The main factors behind this decrease were a decrease of ¥19,244 million in foreign currency translation adjustment and a decrease of ¥8,081 million in non-controlling interests, despite an increase of ¥24,934 million in valuation difference on available-for-sale securities and an increase of ¥528 million 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, 2017 have been revised from the forecasts announced on November 8, 2016.

Please refer to the “Notice of Financial Forecasts Revision” released on February 8, 2017, the same day of this report.

2. Matters regarding summary information (notes)

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

During the second quarter ended September 30, 2016, liquidation of JAPEX’s specified subsidiary Japex Philippines Ltd. was completed on July 28, 2016.

(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 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 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) Changes in accounting policies, changes in accounting estimates, and restatement

Changes in accounting policies

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, certain domestic consolidated subsidiaries have applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) from the first quarter ended June 30, 2016, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight line method.

The effect of this on the consolidated financial results for the nine months ended December 31, 2016 is immaterial.

(4) Additional information

(Implementation Guidance on Recoverability of Deferred Tax Assets)

The “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) has been applied from the first quarter ended June 30, 2016.

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

(Millions of yen)

	As of March 31, 2016	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	104,359	123,574
Notes and accounts receivable - trade	24,642	28,378
Securities	23,551	1,202
Merchandise and finished goods	4,414	4,592
Work in process	29	209
Raw materials and supplies	4,135	4,944
Other	12,536	14,389
Allowance for doubtful accounts	(30)	(28)
Total current assets	173,638	177,263
Non-current assets		
Property, plant and equipment		
Construction in progress	179,420	185,738
Other, net	156,797	143,107
Total property, plant and equipment	336,218	328,846
Intangible assets		
Other	9,698	8,622
Total intangible assets	9,698	8,622
Investments and other assets		
Investment securities	135,261	165,329
Other	55,691	40,633
Allowance for doubtful accounts	(58)	(51)
Allowance for overseas investment loss	(2,847)	(2,625)
Total investments and other assets	188,046	203,286
Total non-current assets	533,963	540,755
Total assets	707,601	718,019

(Millions of yen)

	As of March 31, 2016	As of December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,585	15,344
Provision	68	198
Other	23,636	25,826
Total current liabilities	32,290	41,369
Non-current liabilities		
Long-term loans payable	130,030	124,814
Deferred tax liabilities	24,267	33,582
Provision	229	448
Net defined benefit liability	3,574	3,479
Asset retirement obligations	17,811	17,056
Other	4,079	3,736
Total non-current liabilities	179,994	183,118
Total liabilities	212,284	224,487
Net assets		
Shareholders' equity		
Capital stock	14,288	14,288
Capital surplus	157	157
Retained earnings	345,674	346,202
Treasury shares	(10)	(10)
Total shareholders' equity	360,109	360,638
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	50,554	75,489
Deferred gains or losses on hedges	3	30
Foreign currency translation adjustment	10,087	(9,157)
Remeasurements of defined benefit plans	253	304
Total accumulated other comprehensive income	60,899	66,666
Non-controlling interests	74,308	66,226
Total net assets	495,317	493,531
Total liabilities and net assets	707,601	718,019

(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, 2015	Nine months ended December 31, 2016
Net sales	187,402	144,678
Cost of sales	149,937	124,010
Gross profit	37,465	20,668
Exploration expenses		
Exploration expenses	6,417	1,229
Exploration subsidies	(82)	(124)
Total exploration expenses	6,335	1,104
Selling, general and administrative expenses	24,221	21,240
Operating income (loss)	6,907	(1,676)
Non-operating income		
Interest income	1,129	919
Dividend income	2,025	2,072
Share of profit of entities accounted for using equity method	2,438	–
Other	666	1,385
Total non-operating income	6,260	4,378
Non-operating expenses		
Interest expenses	513	707
Share of loss of entities accounted for using equity method	–	1,244
Foreign exchange losses	5,663	–
Other	304	476
Total non-operating expenses	6,482	2,427
Ordinary income	6,686	274
Extraordinary income		
Gain on sales of non-current assets	81	–
Total extraordinary income	81	–
Extraordinary losses		
Loss on retirement of non-current assets	89	38
Provision for loss on business liquidation	–	249
Other	19	0
Total extraordinary losses	108	288
Profit (loss) before income taxes	6,658	(14)
Income taxes	5,566	620
Profit (loss)	1,092	(634)
Loss attributable to non-controlling interests	(5,275)	(2,483)
Profit attributable to owners of parent	6,368	1,848

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Profit (loss)	1,092	(634)
Other comprehensive income		
Valuation difference on available-for-sale securities	(10,866)	24,955
Deferred gains or losses on hedges	(7)	25
Foreign currency translation adjustment	(8,132)	(25,463)
Remeasurements of defined benefit plans, net of tax	10	106
Share of other comprehensive income of entities accounted for using equity method	(445)	(389)
Total other comprehensive income	(19,441)	(766)
Comprehensive income	(18,348)	(1,401)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(6,502)	6,376
Comprehensive income attributable to non-controlling interests	(11,846)	(7,778)

(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 and the Scope of Application of the Equity Method)

1) Significant changes in the scope of consolidation

From the second quarter ended September 30, 2016, Japex Philippines Ltd. and Japex Buton Ltd. were excluded from the scope of consolidation, as their liquidation was completed. However, statements of income until liquidation day were consolidated.

2) Significant changes in the scope of application of the equity method

There have been no significant changes in the scope of application of the equity method. Furthermore, from the first quarter ended June 30, 2016, the results of the subsidiaries and associates of Japan Drilling Co., Ltd. have been included in the calculation when applying the equity method, as their importance has increased.

4. Supplemental information

Status of production and sales

(1) Production

		Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)	Nine months ended December 31, 2016 (April 1, 2016 – December 31, 2016)	(Reference) Fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)
E&P	Crude oil (kl)	1,325,798 (1,062,681)	1,153,670 (924,184)	1,908,080 (1,564,057)
	Natural gas (thousand m ³)	971,131 (360,904)	1,025,128 (454,968)	1,331,251 (507,328)
	LNG (t)	969	9,656	2,202
	Bitumen (kl)	222,748 (222,748)	90,751 (90,751)	306,432 (306,432)

- 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, 2015 (April 1, 2015 – December 31, 2015)		Nine months ended December 31, 2016 (April 1, 2016 – December 31, 2016)		(Reference) Fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)	
		Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)
E&P	Crude oil (kl)	2,283,352	83,441	2,229,233	63,125	2,926,653	98,023
	Natural gas (thousand m ³)	1,253,182	49,170	1,321,461	37,170	1,780,537	68,469
	LNG (t)	137,190	12,216	197,586	10,617	208,246	17,715
	Bitumen (kl)	223,246	4,018	91,620	594	306,436	4,894
Subtotal			148,846		111,508		189,103
Contract services			7,379		7,060		9,797
Other businesses	Oil products /merchandise		24,658		22,139		32,609
	Others		6,519		3,969		8,792
Subtotal			31,177		26,108		41,401
Total			187,402		144,678		240,302

- 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.