

# Consolidated Financial Results for the Nine Months Ended December 31, 2015

## <under Japanese GAAP>

February 5, 2016

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 10, 2016  
 Scheduled date to commence dividend payments: To be determined  
 Presentation of supplementary material on quarterly financial results: Yes  
 Holding of quarterly financial results presentation meeting (for analysts and institutional investors): None

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

### 1. Consolidated financial results for the nine months ended December 31, 2015

(April 1, 2015 – December 31, 2015)

#### (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	%
December 31, 2015	187,402	(18.3)	6,907	(71.1)	6,686	(83.5)	6,368	(78.3)
December 31, 2014	229,431	27.3	23,880	49.5	40,573	35.1	29,342	61.6

Note: Comprehensive income: Nine months ended December 31, 2015: (18,348) million yen (- %)  
 Nine months ended December 31, 2014: 32,617 million yen (9.8 %)

	Net income per share	Diluted net income per share
Nine months ended	Yen	Yen
December 31, 2015	111.43	-
December 31, 2014	513.41	-

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2015	750,842	527,860	60.0
As of March 31, 2015	736,862	540,647	62.5

Reference: Equity As of December 31, 2015: 450,810 million yen As of March 31, 2015: 460,398 million yen

### 2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total
Fiscal year ended March 31, 2015	Yen	Yen	Yen	Yen	Yen
	-	25.00	-	25.00	50.00
Fiscal year ending March 31, 2016	-	25.00	-		
Fiscal year ending March 31, 2016 (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, 2016 (April 1, 2015 – March 31, 2016)  
(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2016	245,714	(19.4)	8,690	(73.0)	5,150	(90.6)	5,236	(82.3)	91.61

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 “(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, 2015 57,154,776 shares

As of March 31, 2015 57,154,776 shares

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

As of December 31, 2015 2,139 shares

As of March 31, 2015 2,139 shares

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

Nine months ended December 31, 2015 57,152,637 shares

Nine months ended December 31, 2014 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, 2015” on page 4 of the attached material to the quarterly financial results report.

(Method of accessing supplementary material on quarterly financial results)

On February 5, 2016 (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, 2015

### (1) Explanation of operating results

During the nine months ended December 31, 2015, net sales was at ¥187,402 million, a decrease of ¥42,028 million (-18.3%) year on year. Gross profit decreased by ¥15,216 million (-28.9%) year on year to ¥37,465 million. The main factors behind the year-on-year decreases in net sales and gross profit were falls in sales prices of domestically produced crude oil, overseas crude oil and natural gas, and a decrease in sales volume of domestically produced crude oil.

Exploration expenses increased by ¥2,152 million (+51.5%) year on year to ¥6,335 million. This was the result of a considerable increase in overseas expenditures. Selling, general and administrative expenses decreased by ¥395 million (-1.6%) year on year to ¥24,221 million. As a result, operating income decreased by ¥16,972 million (-71.1%) year on year to ¥6,907 million.

Ordinary income amounted to ¥6,686 million, a decrease of ¥33,887 million (-83.5%) year on year. This was mainly because of a decrease in share of profit of entities accounted for using equity method, and the turnaround from foreign exchange gains in the same period of the previous fiscal year to foreign exchange losses.

Income before income taxes decreased by ¥33,903 million (-83.6%) year on year to ¥6,658 million. Profit attributable to owners of parent came to ¥6,368 million, a decrease of ¥22,974 million (-78.3%) 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 ¥148,846 million, a decrease of ¥37,842 million (-20.3%) year on year. This was mainly the result of fall in sales price and a decrease in sales volume of domestically produced crude oil.

#### (ii) Contract Services

Net sales from contract services (involves drilling and geological surveys) came to ¥7,379 million, an increase of ¥1,101 million (+17.5%) 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 ¥31,177 million, a decrease of ¥5,287 million (-14.5%) 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 ¥13,979 million to ¥750,842 million. The main factor behind this increase was an increase of ¥31,775 million in total property, plant and equipment partly due to an increase in construction in progress, despite a decrease of ¥1,984 million in total current assets partly due to a decrease in short-term loans payable (other under current liabilities), and a decrease of ¥15,536 million in total investments and other assets partly due to a decrease in investment securities.

Total liabilities increased by ¥26,767 million from the previous fiscal year-end to ¥222,981 million. The main factor behind this increase was an increase of ¥100,497 million in total non-current liabilities partly due to an increase in long-term loans payable, despite a decrease of ¥73,730 million in total current liabilities partly due to a decrease in short-term loans payable.

Total net assets decreased by ¥12,787 million from the previous fiscal year-end to ¥527,860 million. The main factor behind this decrease was a decrease of ¥10,865 million in valuation difference on available-for-sale securities, and a decrease of ¥2,393 million in foreign currency translation adjustment, despite an increase of ¥3,510 million in retained earnings.

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

JAPEX expects that the consolidated financial forecasts for net sales, ordinary income and profit attributable to owners of parent for the fiscal year ending March 31, 2016 will be lower compared to the previous financial forecasts announced on November 6, 2015. Although net sales decreased due to fall of oil prices, operating income is expected to stay about the same as in previous consolidated financial forecasts due mainly to a decrease in exploration expenses. On the other hand, ordinary income and profit attributable to owners of parent are expected to decrease due mainly to changes in foreign exchange losses and an increase in taxes.

For our revised consolidated financial forecasts, the Japan Crude Cocktail (JCC) price expectation for the fourth quarter (January 2016 to March 2016) was changed to \$36 per barrel, from \$50 per barrel as in the previously announced financial forecast. The foreign exchange rate assumptions remain unchanged at ¥120/\$.

Please refer to the “Notice of Financial Forecast Revision” released on February 5, 2016, the same day of this report.

## 2. Matters regarding summary information (notes)

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

No item 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 for the fiscal year including the third quarter, and next by multiplying the quarterly income 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 Accounting Standard for Business Combinations, etc.)

Effective from the first quarter ended June 30, 2015, the Company has applied the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), etc. As a result, the method of recording the amount of difference caused by changes in the Company’s ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the first quarter ended June 30, 2015, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the quarterly consolidated financial statements for the quarterly period to which the date of business combination belongs. In addition, the presentation method for “Net income” and other related items was changed, and the presentation of “Minority interests” was changed to “Non-controlling interests.” To reflect these changes, the Company has reclassified its quarterly and full-year consolidated financial statements for the nine months of the previous fiscal year and the previous fiscal year.

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided for in paragraph 58-2 (4) of the Accounting Standard for Business Combinations, paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. The Company is applying the said standard, etc. prospectively from the beginning of the first quarter ended June 30, 2015.

As a result of this change, the effect of these changes on operating income, ordinary income and income before income taxes for the nine months ended December 31, 2015 and on capital surplus at the end of the third quarter ended December 31, 2015 is immaterial.

(4) Additional information

(Changes to functional currency for foreign consolidated subsidiaries)

From the third quarter ended December 31, 2015, Japan Canada Oil Sands Limited, a foreign consolidated subsidiary of the Company, has changed its functional currency from the Canadian dollar to the U.S. dollar.

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

(Millions of yen)

	As of March 31, 2015	As of December 31, 2015
<b>Assets</b>		
Current assets		
Cash and deposits	92,956	84,649
Notes and accounts receivable - trade	25,248	25,772
Securities	45,605	57,186
Merchandise and finished goods	4,551	4,705
Work in process	250	381
Raw materials and supplies	7,488	7,445
Other	22,430	16,400
Allowance for doubtful accounts	(38)	(31)
Total current assets	198,492	196,508
Non-current assets		
Property, plant and equipment		
Construction in progress	132,122	168,535
Other, net	157,595	152,958
Total property, plant and equipment	289,718	321,494
Intangible assets		
Other	9,949	9,674
Total intangible assets	9,949	9,674
Investments and other assets		
Investment securities	187,926	173,182
Other	54,140	53,142
Allowance for doubtful accounts	(47)	(49)
Allowance for overseas investment loss	(3,317)	(3,110)
Total investments and other assets	238,701	223,164
Total non-current assets	538,369	554,333
Total assets	736,862	750,842

(Millions of yen)

	As of March 31, 2015	As of December 31, 2015
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	6,728	10,245
Short-term loans payable	50,809	–
Provision	311	146
Other	55,019	28,746
<b>Total current liabilities</b>	<b>112,868</b>	<b>39,138</b>
Non-current liabilities		
Long-term loans payable	20,726	125,944
Deferred tax liabilities	36,657	33,180
Provision	1,005	222
Net defined benefit liability	3,534	3,471
Asset retirement obligations	17,475	16,851
Other	3,946	4,173
<b>Total non-current liabilities</b>	<b>83,346</b>	<b>183,843</b>
<b>Total liabilities</b>	<b>196,214</b>	<b>222,981</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	14,288	14,288
Capital surplus	–	157
Retained earnings	346,441	349,952
Treasury shares	(10)	(10)
<b>Total shareholders' equity</b>	<b>360,719</b>	<b>364,387</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	86,174	75,308
Deferred gains or losses on hedges	3	(3)
Foreign currency translation adjustment	12,980	10,586
Remeasurements of defined benefit plans	521	531
<b>Total accumulated other comprehensive income</b>	<b>99,678</b>	<b>86,422</b>
Non-controlling interests	80,249	77,050
<b>Total net assets</b>	<b>540,647</b>	<b>527,860</b>
<b>Total liabilities and net assets</b>	<b>736,862</b>	<b>750,842</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, 2014 (April 1, 2014 – December 31, 2014)	Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)
Net sales	229,431	187,402
Cost of sales	176,750	149,937
Gross profit	52,681	37,465
Exploration expenses		
Exploration expenses	4,380	6,417
Exploration subsidies	(197)	(82)
Total exploration expenses	4,182	6,335
Selling, general and administrative expenses	24,617	24,221
Operating income	23,880	6,907
Non-operating income		
Interest income	1,717	1,129
Dividend income	2,312	2,025
Share of profit of entities accounted for using equity method	8,920	2,438
Foreign exchange gains	4,372	–
Other	767	666
Total non-operating income	18,089	6,260
Non-operating expenses		
Interest expenses	535	513
Foreign exchange losses	–	5,663
Provision for allowance for losses on overseas investments	476	–
Other	384	304
Total non-operating expenses	1,397	6,482
Ordinary income	40,573	6,686
Extraordinary income		
Gain on sales of non-current assets	–	81
Subsidy income	42	–
Other	0	–
Total extraordinary income	42	81
Extraordinary losses		
Loss on retirement of non-current assets	53	89
Other	–	19
Total extraordinary losses	53	108
Income before income taxes	40,561	6,658
Income taxes	8,797	5,566
Profit	31,764	1,092
Profit (loss) attributable to non-controlling interests	2,421	(5,275)
Profit attributable to owners of parent	29,342	6,368



## Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Nine months ended December 31, 2014 (April 1, 2014 – December 31, 2014)	Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)
Profit	31,764	1,092
Other comprehensive income		
Valuation difference on available-for-sale securities	468	(10,866)
Deferred gains or losses on hedges	226	(7)
Foreign currency translation adjustment	(44)	(8,132)
Remeasurements of defined benefit plans, net of tax	55	10
Share of other comprehensive income of entities accounted for using equity method	147	(445)
Total other comprehensive income	853	(19,441)
Comprehensive income	32,617	(18,348)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	30,370	(6,502)
Comprehensive income attributable to non-controlling interests	2,247	(11,846)

(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

#### 4. Supplemental information

##### Status of production and sales

###### 1. Production

		Nine months ended December 31, 2014 (April 1, 2014 – December 31, 2014)	Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)	(Reference) Fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)
E&P	Crude oil (kl)	1,311,646 (1,017,611)	1,325,798 (1,062,681)	1,990,143 (1,601,853)
	Natural gas (thousand m <sup>3</sup> )	959,256 (308,669)	971,131 (360,904)	1,302,003 (436,841)
	LNG (t)	1,000	969	1,000
	Bitumen (kl)	244,617 (244,617)	222,748 (222,748)	332,757 (332,757)

- 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, 2014 (April 1, 2014 – December 31, 2014)		Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)		(Reference) Fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)	
		Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)
E&P	Crude oil (kl)	1,466,538	98,091	2,310,816	85,673	2,064,266	121,240
	Natural gas (thousand m <sup>3</sup> )	1,219,348	59,220	1,225,718	46,937	1,710,779	83,974
	LNG (t)	204,356	20,773	137,190	12,216	274,044	28,311
	Bitumen (kl)	244,984	8,603	223,246	4,018	332,342	12,105
Subtotal			186,689		148,846		245,631
Contract services			6,277		7,379		10,487
Other businesses	Oil products /merchandise		30,960		24,658		41,040
	Others		5,503		6,519		7,751
Subtotal			36,464		31,177		48,792
Total			229,431		187,402		304,911

- 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.