

## Consolidated Financial Results for the Six Months Ended September 30, 2016 <under Japanese GAAP>

November 8, 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: November 10, 2016  
 Scheduled date to commence dividend payments: December 13, 2016  
 Presentation of supplementary material on quarterly financial results: Yes  
 Holding of quarterly financial results presentation meeting (for institutional investors and analysts): Yes

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

### 1. Consolidated financial results for the six months ended September 30, 2016 (April 1, 2016 – September 30, 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	%
Six months ended								
September 30, 2016	91,494	(26.3)	(3,213)	–	(2,238)	–	(1,267)	–
September 30, 2015	124,157	(15.5)	5,407	(64.2)	8,842	(64.3)	7,963	(57.8)

Note: Comprehensive income: Six months ended September 30, 2016: (20,072) million yen (– %)  
 Six months ended September 30, 2015: (22,665) million yen (– %)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
September 30, 2016	(22.17)	–
September 30, 2015	139.34	–

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2016	684,515	475,145	59.4
As of March 31, 2016	707,601	495,317	59.5

Reference: Equity As of September 30, 2016: 406,763 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: Yes  
 Cash dividends of the fiscal year-end and total of the annual dividends are yet to be determined.

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	189,528	(21.1)	(1,285)	–	(3,725)	–	(341)	–	(5.97)

Note: Revisions to the consolidated financial forecasts most recently announced: Yes

\* Notes

- (1) Changes in significant subsidiaries during the six 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 six 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 September 30, 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 September 30, 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)  
Six months ended September 30, 2016 57,152,637 shares  
Six months ended September 30, 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 six months ended September 30, 2016” on page 4 of the attached material to the quarterly financial results report.

(Method of accessing supplementary material on quarterly financial results)

JAPEX plans to hold a presentation meeting for institutional investors and analysts on November 9, 2016. JAPEX plans to post the material distributed at this presentation meeting on its website promptly after the meeting is held.

(Attached Material)

## 1. Qualitative information regarding settlement of accounts for the six months ended September 30, 2016

### (1) Explanation of operating results

During the six months ended September 30, 2016, net sales was ¥91,494 million, a decrease of ¥32,663 million (-26.3%) year on year. Gross profit was ¥11,675 million, a decrease of ¥14,733 million (-55.8%) 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 ¥645 million, a decrease of ¥4,124 million (-86.5%) year on year. This was mainly the result of a considerable decrease in overseas expenditures. Selling, general and administrative expenses was ¥14,243 million, a decrease of ¥1,987 million (-12.2%) year on year, mainly by the result of a considerable decrease in domestic expenditures. As a result, operating income deteriorated by ¥8,621 million year on year to an operating loss of ¥3,213 million (operating income of ¥5,407 million in the same period of the previous fiscal year). Ordinary income deteriorated by ¥11,081 million year on year to an ordinary loss of ¥2,238 million (ordinary income of ¥8,842 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.

Profit before income taxes also decreased by ¥11,280 million year on year to a loss before income taxes of ¥2,509 million, as a result of a turnaround from ordinary income to ordinary loss. Profit attributable to owners of parent also decreased by ¥9,230 million year on year to a loss attributable to owners of parent of ¥1,267 million.

Below is a breakdown of sales.

#### (i) E&P

Net sales from E&P (including liquefied natural gas (LNG) and bitumen) came to ¥71,951 million, a decrease of ¥26,162 million (-26.7%) year on year. This was mainly the result of fall in sales price and decreases in sales volumes of domestically produced crude oil and domestic natural gas.

#### (ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥3,987 million, a decrease of ¥1,555 million (-28.1%) 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 ¥15,555 million, a decrease of ¥4,945 million (-24.1%) year on year.

### (2) Explanation of financial position

At the end of the second quarter, total assets decreased by ¥23,086 million to ¥684,515 million as compared to the end of the previous fiscal year. The main factors behind this decrease were a decrease of ¥11,897 million in total investments and other assets partly due to the progress of recovery of recoverable accounts, a decrease of ¥7,653 million in total property, plant and equipment partly due to the impact of exchange rate, and a decrease of ¥2,617 million in total current assets.

Total liabilities decreased by ¥2,914 million from the previous fiscal year-end to ¥209,369 million. The main factors behind this decrease were a decrease of ¥1,558 million in total current liabilities, and a decrease of ¥1,356 million in total non-current liabilities partly due to a decrease in long-term loans payable due to the impact of exchange rate.

Total net assets decreased by ¥20,171 million from the previous fiscal year-end to ¥475,145 million. The main factor behind this decrease was a decrease of ¥16,187 million in foreign currency translation adjustment, a decrease of ¥5,925 million in non-controlling interests, and a decrease of ¥2,302 million in retained earnings, despite an increase of ¥4,235 million in valuation difference on available-for-sale securities and other increases.

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

The consolidated financial forecasts for the fiscal year ending March 31, 2017 and forecasts of cash dividends have been revised from the forecasts announced on August 5, 2016.

Please refer to the “Notice of Financial Forecasts Revision and Interim Dividend Payout and Year-end Dividend Forecast Revisions” released on November 8, 2016, the same day of this report.

2. Matters regarding summary information (notes)

(1) Changes in significant subsidiaries during the six 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 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 profit before income taxes for the fiscal year including the second 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 six months ended September 30, 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 September 30, 2016
<b>Assets</b>		
Current assets		
Cash and deposits	104,359	126,958
Notes and accounts receivable - trade	24,642	20,854
Securities	23,551	1,299
Merchandise and finished goods	4,414	4,566
Work in process	29	288
Raw materials and supplies	4,135	6,089
Other	12,536	10,991
Allowance for doubtful accounts	(30)	(28)
Total current assets	173,638	171,020
Non-current assets		
Property, plant and equipment		
Construction in progress	179,420	180,577
Other, net	156,797	147,986
Total property, plant and equipment	336,218	328,564
Intangible assets		
Other	9,698	8,780
Total intangible assets	9,698	8,780
Investments and other assets		
Investment securities	135,261	137,494
Other	55,691	41,419
Allowance for doubtful accounts	(58)	(58)
Allowance for overseas investment loss	(2,847)	(2,705)
Total investments and other assets	188,046	176,149
Total non-current assets	533,963	513,494
Total assets	707,601	684,515

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	8,585	9,265
Provision	68	117
Other	23,636	21,349
Total current liabilities	32,290	30,731
Non-current liabilities		
Long-term loans payable	130,030	128,109
Deferred tax liabilities	24,267	25,621
Provision	229	454
Net defined benefit liability	3,574	3,476
Asset retirement obligations	17,811	17,209
Other	4,079	3,767
Total non-current liabilities	179,994	178,638
Total liabilities	212,284	209,369
Net assets		
Shareholders' equity		
Capital stock	14,288	14,288
Capital surplus	157	157
Retained earnings	345,674	343,372
Treasury shares	(10)	(10)
Total shareholders' equity	360,109	357,807
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	50,554	54,790
Deferred gains or losses on hedges	3	(2)
Foreign currency translation adjustment	10,087	(6,099)
Remeasurements of defined benefit plans	253	266
Total accumulated other comprehensive income	60,899	48,955
Non-controlling interests	74,308	68,382
Total net assets	495,317	475,145
Total liabilities and net assets	707,601	684,515

(2) Consolidated quarterly statement of income and Consolidated quarterly statement of comprehensive income  
Consolidated quarterly statement of income

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	124,157	91,494
Cost of sales	97,748	79,819
Gross profit	26,408	11,675
Exploration expenses		
Exploration expenses	4,791	712
Exploration subsidies	(21)	(67)
Total exploration expenses	4,769	645
Selling, general and administrative expenses	16,231	14,243
Operating income (loss)	5,407	(3,213)
Non-operating income		
Interest income	800	587
Dividend income	1,046	1,045
Share of profit of entities accounted for using equity method	2,350	71
Other	424	520
Total non-operating income	4,622	2,224
Non-operating expenses		
Interest expenses	392	472
Foreign exchange losses	593	491
Other	201	284
Total non-operating expenses	1,187	1,249
Ordinary income (loss)	8,842	(2,238)
Extraordinary income		
Gain on sales of non-current assets	0	–
Total extraordinary income	0	–
Extraordinary losses		
Loss on retirement of non-current assets	71	21
Provision for loss on business liquidation	–	249
Other	1	0
Total extraordinary losses	72	270
Profit (loss) before income taxes	8,770	(2,509)
Income taxes	3,660	414
Profit (loss)	5,109	(2,924)
Loss attributable to non-controlling interests	(2,853)	(1,657)
Profit (loss) attributable to owners of parent	7,963	(1,267)

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit (loss)	5,109	(2,924)
Other comprehensive income		
Valuation difference on available-for-sale securities	(20,205)	4,249
Deferred gains or losses on hedges	(55)	(6)
Foreign currency translation adjustment	(7,512)	(20,434)
Remeasurements of defined benefit plans, net of tax	6	71
Share of other comprehensive income of entities accounted for using equity method	(9)	(1,027)
Total other comprehensive income	(27,775)	(17,148)
Comprehensive income	(22,665)	(20,072)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(17,480)	(14,450)
Comprehensive income attributable to non-controlling interests	(5,185)	(5,622)



(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

Since liquidation of Japex Philippines Ltd. and Japex Buton Ltd. was completed during the second quarter ended September 30, 2016, they were excluded from the scope of consolidation. 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

		Six months ended September 30, 2015 (April 1, 2015 – September 30, 2015)	Six months ended September 30, 2016 (April 1, 2016 – September 30, 2016)	(Reference) Fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)
E&P	Crude oil (kl)	882,059 (704,192)	777,429 (625,336)	1,908,080 (1,564,057)
	Natural gas (thousand m <sup>3</sup> )	684,307 (280,533)	677,202 (313,503)	1,331,251 (507,328)
	LNG (t)	250	8,437	2,202
	Bitumen (kl)	142,664 (142,664)	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

		Six months ended September 30, 2015 (April 1, 2015 – September 30, 2015)		Six months ended September 30, 2016 (April 1, 2016 – September 30, 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)	1,336,750	54,220	1,623,849	43,202	2,926,653	98,023
	Natural gas (thousand m <sup>3</sup> )	820,504	33,031	844,862	23,184	1,780,537	68,469
	LNG (t)	81,898	7,934	78,459	4,974	208,246	17,715
	Bitumen (kl)	143,288	2,927	91,624	589	306,436	4,894
Subtotal			98,113		71,951		189,103
Contract services			5,542		3,987		9,797
Other businesses	Oil products /merchandise		16,140		13,179		32,609
	Others		4,360		2,375		8,792
Subtotal			20,500		15,555		41,401
Total			124,157		91,494		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.