

Consolidated Financial Results for the Six Months Ended September 30, 2018 <under Japanese GAAP>

November 9, 2018

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 12, 2018
 Scheduled date to commence dividend payments: December 13, 2018
 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, 2018 (April 1, 2018 – September 30, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2018	115,136	2.5	(1,183)	–	1,293	(85.4)	2,433	(68.6)
September 30, 2017	112,382	22.8	3,452	–	8,888	–	7,756	–

Note: Comprehensive income: Six months ended September 30, 2018: 7,235 million yen (-49.9 %)
 Six months ended September 30, 2017: 14,436 million yen (- %)

Six months ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
September 30, 2018	42.59	–
September 30, 2017	135.71	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2018	692,648	465,736	62.5
As of March 31, 2018	699,536	459,255	60.8

Reference: Equity As of September 30, 2018: 432,660 million yen As of March 31, 2018: 425,114 million yen

2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	–	10.00	–	10.00	20.00
Fiscal year ending March 31, 2019	–	10.00			
Fiscal year ending March 31, 2019 (Forecast)			–	10.00	20.00

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

3. Consolidated financial forecasts for the fiscal year ending March 31, 2019 (April 1, 2018 – March 31, 2019)
(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		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, 2019	288,330	25.0	526	(94.0)	12,390	223.6	12,393	–	216.84

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): None

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

Note: For details, please refer to “(3) Notes to consolidated financial statements (Application of specific accounting for preparing quarterly consolidated financial statements)” of “2. Consolidated financial statements and significant notes thereto” on page 9 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) Notes to consolidated financial statements (Changes in accounting policies)” of “2. Consolidated financial statements and significant notes thereto” on page 9 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, 2018 57,154,776 shares

As of March 31, 2018 57,154,776 shares

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

As of September 30, 2018 2,139 shares

As of March 31, 2018 2,139 shares

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

Six months ended September 30, 2018 57,152,637 shares

Six months ended September 30, 2017 57,152,637 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* 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, 2018” 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 12, 2018. 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, 2018

(1) Explanation of operating results

During the six months ended September 30, 2018, net sales was ¥115,136 million, an increase of ¥2,754 million (+2.5%) year on year. Gross profit was ¥14,126 million, a decrease of ¥3,757 million (-21.0%) year on year. The main factors behind the year-on-year increase in net sales were the increase in net sales buoyed by sales of bitumen in JACOS Hangingstone leases where production operation was started in August 2017, despite decreases in sales volumes of crude oil and natural gas. The main factor behind the year-on-year decrease in gross profit was the increase in operating costs for the Soma LNG terminal, which commenced operation in March 2018, and other factors.

Exploration expenses was ¥362 million, a decrease of ¥280 million (-43.6%) year on year. Selling, general and administrative expenses was ¥14,946 million, an increase of ¥1,157 million (+8.4%) year on year. As a result, operating profit deteriorated by ¥4,635 million year on year to an operating loss of ¥1,183 million (operating profit of ¥3,452 million in the same period of the previous fiscal year).

Ordinary profit decreased by ¥7,594 million year on year to ¥1,293 million, mainly because of the turnaround from foreign exchange gains to foreign exchange losses, despite an increase in share of profit of entities accounted for using equity method.

Profit before income taxes decreased by ¥6,963 million year on year to ¥1,912 million. Profit attributable to owners of parent also decreased by ¥5,322 million year on year to ¥2,433 million.

Below is a breakdown of sales.

(i) Oil and Gas

Net sales from oil and gas (including liquefied natural gas (LNG) and diluted bitumen) came to ¥91,715 million, an increase of ¥4,194 million (+4.8%) year on year. This was mainly the result of the above-mentioned sales of diluted bitumen, despite decreases in sales volumes of crude oil and natural gas.

(ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥2,826 million, a decrease of ¥2,410 million (-46.0%) 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 ¥20,594 million, an increase of ¥970 million (+4.9%) year on year.

(2) Explanation of financial position

At the end of the second quarter, total assets decreased by ¥6,888 million from the previous fiscal year-end to ¥692,648 million.

Current assets decreased by ¥9,413 million from the previous fiscal year-end to ¥159,738 million, mainly due to a decrease in notes and accounts receivable - trade. Non-current assets increased by ¥2,525 million from the previous fiscal year-end to ¥532,910 million, mainly due to an increase in investment securities resulting from the rise in market values of securities held, despite the decline in property, plant and equipment resulting from the impact of fluctuation in foreign exchange rates and depreciation.

Liabilities decreased by ¥13,369 million from the previous fiscal year-end to ¥226,912 million.

Current liabilities decreased by ¥8,632 million from the previous fiscal year-end to ¥34,983 million, mainly due to a decrease in notes and accounts payable - trade, and decreases in accounts payable - other and income taxes payable, which are included in other in current liabilities. Non-current liabilities decreased by ¥4,737 million from the previous fiscal year-end to ¥191,928 million. This was mainly the

result of the decrease in long-term loans payable due to the impact of fluctuation in foreign exchange rates and the reclassification of loans payable with repayments due in one year or less to current liabilities, despite the increase of deferred tax liabilities resulting from the above-mentioned rise in market values of securities held.

Net assets increased by ¥6,481 million from the previous fiscal year-end to ¥465,736 million.

Shareholders' equity increased by ¥1,862 million from the previous fiscal year-end to ¥334,003 million. Accumulated other comprehensive income increased by ¥5,683 million from the previous fiscal year-end to ¥98,657 million. Non-controlling interests decreased by ¥1,065 million from the previous fiscal year-end to ¥33,075 million.

Please note that the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances have been applied from the beginning of the first quarter ended June 30, 2018. Accordingly, the figures presented for the financial position for the fiscal year ended March 31, 2018 have been retrospectively adjusted in order to conduct comparison and analysis against the previous fiscal year using figures that reflect the application of the aforementioned standard, etc.

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

The consolidated financial forecasts for the fiscal year ending March 31, 2019 have been revised from the forecasts announced on August 8, 2018.

Please refer to the "Notice of Financial Forecasts Revision" released on November 9, 2018, the same day of this report.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheet

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	115,313	111,601
Notes and accounts receivable - trade	26,073	18,309
Securities	2,200	2,500
Merchandise and finished goods	5,447	5,511
Work in process	381	461
Raw materials and supplies	5,524	7,559
Other	14,246	13,830
Allowance for doubtful accounts	(34)	(35)
Total current assets	169,151	159,738
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	187,073	189,801
Other, net	142,416	127,505
Total property, plant and equipment	329,490	317,307
Intangible assets		
Other	8,226	7,808
Total intangible assets	8,226	7,808
Investments and other assets		
Investment securities	167,342	183,368
Other	27,357	26,269
Allowance for doubtful accounts	(50)	(48)
Allowance for overseas investment loss	(1,982)	(1,794)
Total investments and other assets	192,667	207,794
Total non-current assets	530,384	532,910
Total assets	699,536	692,648

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,544	6,586
Provision	1,415	1,329
Other	28,656	27,067
Total current liabilities	43,615	34,983
Non-current liabilities		
Long-term loans payable	135,959	129,196
Deferred tax liabilities	34,833	37,889
Net defined benefit liability	3,496	3,324
Provision	640	422
Asset retirement obligations	18,664	18,284
Other	3,071	2,810
Total non-current liabilities	196,665	191,928
Total liabilities	240,281	226,912
Net assets		
Shareholders' equity		
Capital stock	14,288	14,288
Capital surplus	183	183
Retained earnings	317,679	319,541
Treasury shares	(10)	(10)
Total shareholders' equity	332,140	334,003
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	86,667	94,673
Deferred gains or losses on hedges	3	48
Foreign currency translation adjustment	5,149	2,797
Remeasurements of defined benefit plans	1,152	1,137
Total accumulated other comprehensive income	92,973	98,657
Non-controlling interests	34,140	33,075
Total net assets	459,255	465,736
Total liabilities and net assets	699,536	692,648

(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, 2017	Six months ended September 30, 2018
Net sales	112,382	115,136
Cost of sales	94,497	101,009
Gross profit	17,884	14,126
Exploration expenses		
Exploration expenses	698	362
Exploration subsidies	(55)	–
Total exploration expenses	643	362
Selling, general and administrative expenses	13,788	14,946
Operating profit (loss)	3,452	(1,183)
Non-operating income		
Interest income	686	745
Dividend income	1,108	1,032
Share of profit of entities accounted for using equity method	3,349	5,489
Other	1,422	559
Total non-operating income	6,566	7,827
Non-operating expenses		
Interest expenses	714	1,825
Foreign exchange losses	–	2,940
Other	416	584
Total non-operating expenses	1,131	5,351
Ordinary profit	8,888	1,293
Extraordinary income		
Gain on sales of non-current assets	2	715
Total extraordinary income	2	715
Extraordinary losses		
Loss on sales of non-current assets	3	60
Loss on retirement of non-current assets	10	35
Other	0	–
Total extraordinary losses	14	96
Profit before income taxes	8,875	1,912
Income taxes	1,108	394
Profit	7,767	1,518
Profit (loss) attributable to non-controlling interests	10	(915)
Profit attributable to owners of parent	7,756	2,433

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	7,767	1,518
Other comprehensive income		
Valuation difference on available-for-sale securities	8,160	8,006
Deferred gains or losses on hedges	369	45
Foreign currency translation adjustment	(4,126)	(2,287)
Remeasurements of defined benefit plans, net of tax	76	(14)
Share of other comprehensive income of entities accounted for using equity method	166	(31)
Changes in equity interest	2,022	–
Total other comprehensive income	6,669	5,717
Comprehensive income	14,436	7,235
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,702	8,117
Comprehensive income attributable to non-controlling interests	(266)	(881)

(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 or the scope of application of the equity method)

Significant changes in the scope of application of the equity method

In the first quarter ended June 30, 2018, Japan Drilling Co., Ltd. was excluded from the scope of application of the equity method, since it filed a petition for commencement of corporate rehabilitation proceedings and no longer has a significant effect on quarterly consolidated financial statements.

The said company received an order commencing corporate rehabilitation proceedings from the Tokyo District Court as of July 25, 2018.

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

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.

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.

(Changes in accounting policies)

Application of the Implementation Guidance on Accounting Standard for Tax Effect Accounting

The "Implementation Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) has been applied from the beginning of the first quarter ended June 30, 2018, and the treatment of taxable temporary differences relating to shares of subsidiaries and others in non-consolidated financial statements has been reviewed.

This change in accounting policies has been applied retrospectively. For the previous fiscal year, the consolidated financial statements reflecting the retrospective application are shown.

Consequently, in the consolidated balance sheet for the previous fiscal year, deferred tax liabilities decreased by ¥2,047 million and retained earnings increased by ¥2,047 million compared with figures before the retrospective application.

(Additional information)

Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" and relevant Guidances

The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances have been applied from the beginning of the first quarter ended June 30, 2018. Accordingly, deferred tax assets were presented under investments and other assets, and deferred tax liabilities were presented under non-current liabilities.

(Significant subsequent events)

Sale of oil sands assets in the 3.75 Section Area of Hangingstone leases in the province of Alberta, Canada

Japan Canada Oil Sands Limited, a foreign consolidated subsidiary of JAPEX, entered into an agreement with Greenfire Hangingstone Operating Corp., a wholly-owned subsidiary of Greenfire Oil and Gas Ltd. (head office: province of Alberta, Canada), for sale of the participating interest in the 3.75 Section Area of Hangingstone leases in the province of Alberta, Canada and assets including wells and facilities relating to production operation owned by Japan Canada Oil Sands Limited on April 3, 2018 (local time in Calgary, Canada), and obtained approval from the Alberta Energy Regulator in the province of Alberta, Canada on August 3, 2018 (local time in Calgary, Canada). Subsequently, said sale was completed.

As a result of said sale, approximately US\$30 million will be recorded as non-operating income due to reversal of asset retirement obligations and other factors in the fiscal year ending March 31, 2019.

Filing of lawsuit and the conclusion of said lawsuit

A lawsuit was filed against Sakhalin Oil and Gas Development Co., Ltd. (“SODECO”), an equity-method affiliate of JAPEX, by Russian company Rosneft in an arbitration court in the Sakhalin Region.

The lawsuit was received by the aforementioned court on July 20, 2018. It was publically disclosed in a Russian legal database that Rosneft was claiming a total monetary amount of 26.7 billion rubles from SODECO.

This lawsuit was withdrawn on November 2, 2018, by Rosneft.

3. Supplemental information

Status of production and sales

(1) Production

		Six months ended September 30, 2017 (April 1, 2017 – September 30, 2017)	Six months ended September 30, 2018 (April 1, 2018 – September 30, 2018)	(Reference) Fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)
Oil and gas	Crude oil (kl)	696,640 (547,370)	504,987 (376,001)	1,272,188 (977,887)
	Natural gas (thousand m ³)	638,954 (268,529)	585,037 (262,561)	1,263,648 (494,680)
	LNG (t)	6,729	4,808	8,391
	Bitumen (kl)	– (–)	338,534 (338,534)	143,152 (143,152)

- 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, 2017 (April 1, 2017 – September 30, 2017)		Six months ended September 30, 2018 (April 1, 2018 – September 30, 2018)		(Reference) Fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)	
		Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)
Oil and gas	Crude oil (kl)	1,548,075	53,086	782,391	41,048	2,346,258	89,173
	Natural gas (thousand m ³)	833,721	26,839	813,097	27,835	1,773,035	60,431
	LNG (t)	131,147	7,595	145,796	9,574	380,955	21,935
	Diluted bitumen (kl)	–	–	496,568	13,257	160,203	4,512
Subtotal			87,520		91,715		176,051
Contract services			5,237		2,826		8,484
Other businesses	Oil products /merchandise		16,842		18,170		40,162
	Others		2,781		2,424		5,930
Subtotal			19,624		20,594		46,093
Total			112,382		115,136		230,629

- 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. Diluted bitumen is bitumen diluted by ultra-light crude oil for pipeline transportation.
3. Monetary amounts in the table do not include consumption taxes.