

Consolidated Financial Results for the Nine Months Ended December 31, 2018 <under Japanese GAAP>

February 12, 2019

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 13, 2019
 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, 2018 (April 1, 2018 – December 31, 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	%
December 31, 2018	207,425	31.1	1,040	(76.4)	12,275	198.5	11,402	–
December 31, 2017	158,274	9.4	4,400	–	4,111	–	(30,337)	–

Note: Comprehensive income: Nine months ended December 31, 2018: (14,536) million yen (– %)
 Nine months ended December 31, 2017: (41,789) million yen (– %)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
December 31, 2018	199.51	–
December 31, 2017	(530.82)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2018	674,332	443,392	60.8
As of March 31, 2018	699,536	459,255	60.8

Reference: Equity As of December 31, 2018: 409,870 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	282,326	22.4	326	(96.3)	9,831	156.8	12,469	–	218.18

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 “(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 December 31, 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 December 31, 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)

Nine months ended December 31, 2018	57,152,637 shares
Nine months ended December 31, 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 nine months ended December 31, 2018” on page 4 of the attached material to the quarterly financial results report.

(Method of accessing supplementary material on quarterly financial results)

On February 12, 2019, JAPEX posts a supplementary material on its website.

(Attached Material)

1. Qualitative information regarding settlement of accounts for the nine months ended December 31, 2018

(1) Explanation of operating results

During the nine months ended December 31, 2018, net sales was ¥207,425 million, an increase of ¥49,151 million (+31.1%) year on year. Gross profit was ¥25,445 million, a decrease of ¥1,371 million (-5.1%) year on year. The main factors behind the year-on-year increase in net sales were rises in sales price of crude oil and natural gas, and contribution from sales of bitumen in Japan Canada Oil Sands Limited (JACOS) Hangingstone leases where production operation was started in August 2017. On the other hand, gross profit decreased year on year, due to the increase in operating costs for the Soma LNG terminal, which commenced operation in March 2018, and other factors.

Exploration expenses was ¥617 million, a decrease of ¥378 million (-38.0%) year on year. Selling, general and administrative expenses was ¥23,787 million, an increase of ¥2,367 million (+11.1%) year on year. As a result, operating profit decreased by ¥3,360 million year on year to ¥1,040 million.

Ordinary profit increased by ¥8,163 million year on year to ¥12,275 million, due to an increase in share of profit of entities accounted for using equity method and a decrease in depreciation of inactive non-current assets in the previous fiscal year(*1) and other factors, despite negative factors stemming from the turnaround from foreign exchange gains to foreign exchange losses.

Profit before income taxes increased by ¥82,352 million year on year to ¥12,880 million, due to a decrease in impairment loss recorded in the previous fiscal year(*2). Profit attributable to owners of parent increased by ¥41,740 million year on year to ¥11,402 million.

(*1) The property, plant and equipment relating to the 3.75 Section Area (the DEMO Area) at the Hangingstone leases was depreciated by the unit-of-production accounting method. This follows the exit from operations of bitumen production using SAGD method (One of the methods to extract ultra-heavy crude oil by injecting steam into the formation to increase fluidity of ultra-heavy crude oil and to use the gravity effect for extraction) in the area by JACOS.

(*2) The impairment loss on the asset of JAPEX Montney Ltd. relating to the shale gas project (hereinafter “the Upstream Project”) was posted due to the development plan of the Upstream project being revised to a plan without the assumption of the Pacific NorthWest LNG Project (hereinafter “the PNW LNG Project”) following the decision not to proceed the PNW LNG Project.

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 ¥169,410 million, an increase of ¥50,433 million (+42.4%) year on year. This was mainly the result of rises in sales price of crude oil and natural gas, and the above-mentioned sales of diluted bitumen.

(ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥4,997 million, a decrease of ¥1,559 million (-23.8%) 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 ¥33,018 million, an increase of ¥277 million (+0.8%) year on year.

(2) Explanation of financial position

At the end of the third quarter, total assets decreased by ¥25,204 million from the previous fiscal year-end to ¥674,332 million.

Current assets increased by ¥16,270 million from the previous fiscal year-end to ¥185,422 million, mainly due to an increase in notes and accounts receivable - trade. Non-current assets decreased by ¥41,475 million from the previous fiscal year-end to ¥488,909 million, mainly due to a decrease in investment securities resulting from the fall in market values of securities held, and the decline in property, plant and equipment resulting from depreciation.

Liabilities decreased by ¥9,341 million from the previous fiscal year-end to ¥230,940 million.

Current liabilities increased by ¥8,836 million from the previous fiscal year-end to ¥52,452 million, mainly due to an increase in notes and accounts payable - trade. Non-current liabilities decreased by ¥18,178 million from the previous fiscal year-end to ¥178,487 million. This was mainly the result of the decrease of deferred tax liabilities resulting from the above-mentioned fall in market values of securities held, the decrease in long-term loans payable due to the reclassification of loans payable with repayments due in one year or less to current liabilities, and reversal of asset retirement obligations.

Net assets decreased by ¥15,862 million from the previous fiscal year-end to ¥443,392 million.

Shareholders' equity increased by ¥10,259 million from the previous fiscal year-end to ¥342,400 million. Accumulated other comprehensive income decreased by ¥25,503 million from the previous fiscal year-end to ¥67,469 million. Non-controlling interests decreased by ¥618 million from the previous fiscal year-end to ¥33,522 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 November 9, 2018.

Please refer to the "Notice of Financial Forecasts Revision" released on February 12, 2019, 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 December 31, 2018
Assets		
Current assets		
Cash and deposits	115,313	116,944
Notes and accounts receivable - trade	26,073	39,000
Securities	2,200	2,530
Merchandise and finished goods	5,447	5,652
Work in process	381	348
Raw materials and supplies	5,524	8,673
Other	14,246	12,309
Allowance for doubtful accounts	(34)	(36)
Total current assets	169,151	185,422
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	187,073	191,136
Other, net	142,416	128,342
Total property, plant and equipment	329,490	319,478
Intangible assets		
Other	8,226	7,662
Total intangible assets	8,226	7,662
Investments and other assets		
Investment securities	167,342	137,104
Other	27,357	25,856
Allowance for doubtful accounts	(50)	(46)
Allowance for overseas investment loss	(1,982)	(1,147)
Total investments and other assets	192,667	161,768
Total non-current assets	530,384	488,909
Total assets	699,536	674,332

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,544	23,892
Provision	1,415	1,402
Other	28,656	27,156
Total current liabilities	43,615	52,452
Non-current liabilities		
Long-term loans payable	135,959	130,369
Deferred tax liabilities	34,833	25,439
Provision	640	1,371
Net defined benefit liability	3,496	3,352
Asset retirement obligations	18,664	15,195
Other	3,071	2,758
Total non-current liabilities	196,665	178,487
Total liabilities	240,281	230,940
Net assets		
Shareholders' equity		
Capital stock	14,288	14,288
Capital surplus	183	183
Retained earnings	317,679	327,938
Treasury shares	(10)	(10)
Total shareholders' equity	332,140	342,400
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	86,667	60,537
Deferred gains or losses on hedges	3	(39)
Foreign currency translation adjustment	5,149	5,841
Remeasurements of defined benefit plans	1,152	1,130
Total accumulated other comprehensive income	92,973	67,469
Non-controlling interests	34,140	33,522
Total net assets	459,255	443,392
Total liabilities and net assets	699,536	674,332

(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, 2017	Nine months ended December 31, 2018
Net sales	158,274	207,425
Cost of sales	131,457	181,980
Gross profit	26,816	25,445
Exploration expenses		
Exploration expenses	1,051	617
Exploration subsidies	(55)	–
Total exploration expenses	996	617
Selling, general and administrative expenses	21,419	23,787
Operating profit	4,400	1,040
Non-operating income		
Interest income	1,061	1,157
Dividend income	2,303	2,064
Share of profit of entities accounted for using equity method	1,630	8,895
Foreign exchange gains	3,889	–
Gain on reversal of asset retirement obligations	–	3,369
Other	665	891
Total non-operating income	9,550	16,379
Non-operating expenses		
Interest expenses	1,258	3,090
Foreign exchange losses	–	1,244
Depreciation of inactive non-current assets	7,823	–
Other	757	808
Total non-operating expenses	9,840	5,144
Ordinary profit	4,111	12,275
Extraordinary income		
Gain on sales of non-current assets	2	715
Other	0	–
Total extraordinary income	3	715
Extraordinary losses		
Loss on sales of non-current assets	3	64
Loss on retirement of non-current assets	71	45
Impairment loss	68,035	–
Other	5,476	–
Total extraordinary losses	73,587	110
Profit (loss) before income taxes	(69,472)	12,880
Income taxes	(409)	2,000
Profit (loss)	(69,063)	10,879
Loss attributable to non-controlling interests	(38,725)	(522)
Profit (loss) attributable to owners of parent	(30,337)	11,402

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Profit (loss)	(69,063)	10,879
Other comprehensive income		
Valuation difference on available-for-sale securities	24,601	(26,126)
Deferred gains or losses on hedges	291	(42)
Foreign currency translation adjustment	(79)	731
Remeasurements of defined benefit plans, net of tax	115	(22)
Share of other comprehensive income of entities accounted for using equity method	309	42
Changes in equity interest	2,035	–
Total other comprehensive income	27,273	(25,416)
Comprehensive income	(41,789)	(14,536)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(4,618)	(14,101)
Comprehensive income attributable to non-controlling interests	(37,171)	(435)

(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 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 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.

(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.

3. Supplemental information

Status of production and sales

(1) Production

		Nine months ended December 31, 2017 (April 1, 2017 – December 31, 2017)	Nine months ended December 31, 2018 (April 1, 2018 – December 31, 2018)	(Reference) Fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)
Oil and gas	Crude oil (kl)	984,937 (762,822)	801,671 (607,218)	1,272,188 (977,887)
	Natural gas (thousand m ³)	937,375 (367,917)	883,380 (379,522)	1,263,648 (494,680)
	LNG (t)	7,831	5,501	8,391
	Bitumen (kl)	24,491 (24,491)	639,003 (639,003)	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

		Nine months ended December 31, 2017 (April 1, 2017 – December 31, 2017)		Nine months ended December 31, 2018 (April 1, 2018 – December 31, 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)	1,752,561	61,950	1,577,301	80,016	2,346,258	89,173
	Natural gas (thousand m ³)	1,272,080	42,433	1,248,114	45,667	1,773,035	60,431
	LNG (t)	249,660	14,201	257,746	17,527	380,955	21,935
	Diluted bitumen (kl)	14,979	390	925,487	26,198	160,203	4,512
	Subtotal		118,977		169,410		176,051
Contract services			6,556		4,997		8,484
Other businesses	Oil products /merchandise		28,396		29,401		40,162
	Others		4,345		3,617		5,930
	Subtotal		32,741		33,018		46,093
Total			158,274		207,425		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.