

Consolidated Financial Results for the Three Months Ended June 30, 2019 <under Japanese GAAP>

August 9, 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: August 9, 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 three months ended June 30, 2019 (April 1, 2019 – June 30, 2019)

(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	%
Three months ended June 30, 2019	93,252	61.8	4,617	–	8,909	–	8,951	–
June 30, 2018	57,623	(3.6)	(2,634)	–	(3,181)	–	(2,261)	–

Note: Comprehensive income: Three months ended June 30, 2019: 2,599 million yen (– %)
 Three months ended June 30, 2018: (22,130) million yen (– %)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2019	156.63		–	
June 30, 2018	(39.57)		–	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of June 30, 2019	653,074		450,563		63.9	
As of March 31, 2019	655,288		450,156		63.6	

Reference: Equity As of June 30, 2019: 417,303 million yen As of March 31, 2019: 416,488 million yen

2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
Fiscal year ended March 31, 2019	Yen –	Yen 10.00	Yen –	Yen 30.00	Yen 40.00
Fiscal year ending March 31, 2020	–	–	–	–	–
Fiscal year ending March 31, 2020 (Forecast)	–	20.00	–	20.00	40.00

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

3. Consolidated financial forecasts for the fiscal year ending March 31, 2020 (April 1, 2019 – March 31, 2020)
(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, 2020	325,014	21.3	11,344	390.4	20,694	65.2	18,022	22.0	315.34

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

* Notes

(1) Changes in significant subsidiaries during the three 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: None

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatement: None

(4) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2019 57,154,776 shares

As of March 31, 2019 57,154,776 shares

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

As of June 30, 2019 2,207 shares

As of March 31, 2019 2,207 shares

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

Three months ended June 30, 2019 57,152,569 shares

Three months ended June 30, 2018 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 three months ended June 30, 2019” on page 4 of the attached material to the quarterly financial results report.

(Attached Material)

1. Qualitative information regarding settlement of accounts for the three months ended June 30, 2019

(1) Explanation of operating results

During the three months ended June 30, 2019, net sales was ¥93,252 million, an increase of ¥35,629 million (+61.8%) year on year. Gross profit was ¥12,440 million, an increase of ¥7,360 million (+144.9%) year on year. Major factors behind the year-on-year increases were as follows: for net sales, there was growth in sales volume of diluted bitumen in Japan Canada Oil Sands Limited (JACOS) Hangingstone leases and growth in sales volumes of crude oil and liquefied natural gas for net sales, while for gross profit, there was a rise in profit mainly from improvement in diluted bitumen sales stemming from the narrowing light-heavy differential (*1) in the oil sands business for gross profit.

Exploration expenses was ¥217 million, an increase of ¥74 million (+51.7%) year on year. Selling, general and administrative expenses was ¥7,605 million, an increase of ¥34 million (+0.5%) year on year. As a result, operating profit improved by ¥7,251 million year on year to ¥4,617 million (operating loss of ¥2,634 million in the same period of the previous fiscal year).

Ordinary profit improved by ¥12,091 million year on year to ¥8,909 million, due mainly to the turnaround from foreign exchange losses to foreign exchange gains (operating loss of ¥3,181 million in the same period of the previous fiscal year).

Profit before income taxes improved by ¥12,149 million year on year to ¥8,905 million (loss before income taxes of ¥3,244 million in the same period of the previous fiscal year). Profit attributable to owners of parent improved by ¥11,213 million year on year to ¥8,951 million (loss attributable to owners of parent of ¥2,261 million in the same period of previous fiscal year).

(*1) The differential between Western Canadian Select (WCS), which is the reference price for heavy crude oil from the oil sands in Canada, and the WTI, which is the reference price of light crude oil

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 ¥76,480 million, an increase of ¥30,673 million (+67.0%) year on year. This was mainly the result of an increase in sales volume of crude oil and LNG, and diluted bitumen.

(ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥6,315 million, an increase of ¥5,136 million (+435.9%) 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 ¥10,456 million, a decrease of ¥181 million (-1.7%) year on year.

(2) Explanation of financial position

At the end of the first quarter, total assets decreased by ¥2,213 million from the previous fiscal year-end to ¥653,074 million.

Current assets increased by ¥19,161 million from the previous fiscal year-end, mainly due to increases in cash and deposits, and notes and accounts receivable - trade. Non-current assets decreased by ¥21,374 million from the previous fiscal year-end. This was mainly due to a decrease in investment securities resulting from the fall in market values and a decrease in recoverable accounts included in other in investments and other assets resulting from the progress in the recovery.

Liabilities decreased by ¥2,619 million from the previous fiscal year-end to ¥202,511 million.

Current liabilities decreased by ¥97 million from the previous fiscal year-end. This was largely due to decreases in advances received and current portion of long-term borrowings included in other in current liabilities despite an increase in notes and accounts payable - trade. Non-current liabilities decreased by ¥2,522 million from the previous fiscal year-end, mainly due to a decrease in deferred tax liabilities resulting from the above-mentioned fall in market values of investment securities.

Net assets increased by ¥406 million from the previous fiscal year-end to ¥450,563 million. The main factor was an increase in retained earnings, despite a decrease in valuation difference on available-for-sale securities.

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

The consolidated financial forecast for the fiscal year ending March 31, 2020 has been revised from the forecast announced on May 10, 2019.

Please refer to the “Notice of Financial Forecasts Revision” released on August 9, 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, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	117,468	129,875
Notes and accounts receivable - trade	20,825	27,013
Securities	2,330	2,300
Merchandise and finished goods	4,559	4,677
Work in process	362	376
Raw materials and supplies	7,589	9,693
Other	12,985	11,345
Allowance for doubtful accounts	(33)	(32)
Total current assets	166,087	185,249
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	185,198	182,702
Other, net	123,915	123,132
Total property, plant and equipment	309,114	305,834
Intangible assets		
Other	7,399	7,212
Total intangible assets	7,399	7,212
Investments and other assets		
Investment securities	137,794	131,383
Other	35,995	24,410
Allowance for doubtful accounts	(46)	(43)
Allowance for overseas investment loss	(1,057)	(971)
Total investments and other assets	172,686	154,778
Total non-current assets	489,200	467,825
Total assets	655,288	653,074

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,666	13,097
Provisions	400	568
Other	24,311	18,616
Total current liabilities	32,378	32,281
Non-current liabilities		
Long-term borrowings	127,715	127,301
Deferred tax liabilities	22,330	20,249
Retirement benefit liability	3,452	3,370
Provisions	1,236	1,101
Asset retirement obligations	15,335	15,148
Other	2,681	3,057
Total non-current liabilities	172,752	170,229
Total liabilities	205,131	202,511
Net assets		
Shareholders' equity		
Share capital	14,288	14,288
Capital surplus	157	157
Retained earnings	331,306	338,543
Treasury shares	(10)	(10)
Total shareholders' equity	345,741	352,978
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	66,296	59,903
Deferred gains or losses on hedges	(2)	(27)
Foreign currency translation adjustment	3,338	3,386
Remeasurements of defined benefit plans	1,114	1,062
Total accumulated other comprehensive income	70,747	64,324
Non-controlling interests	33,668	33,259
Total net assets	450,156	450,563
Total liabilities and net assets	655,288	653,074

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

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	57,623	93,252
Cost of sales	52,543	80,812
Gross profit	5,079	12,440
Exploration expenses	143	217
Selling, general and administrative expenses	7,571	7,605
Operating profit (loss)	(2,634)	4,617
Non-operating income		
Interest income	351	307
Dividend income	1,022	1,649
Share of profit of entities accounted for using equity method	2,387	2,390
Other	276	1,309
Total non-operating income	4,037	5,657
Non-operating expenses		
Interest expenses	860	1,237
Foreign exchange losses	3,437	–
Other	287	127
Total non-operating expenses	4,584	1,365
Ordinary profit (loss)	(3,181)	8,909
Extraordinary income		
Gain on sales of non-current assets	0	–
Total extraordinary income	0	–
Extraordinary losses		
Loss on sales of non-current assets	58	0
Loss on retirement of non-current assets	4	3
Total extraordinary losses	62	4
Profit (loss) before income taxes	(3,244)	8,905
Income taxes	602	(206)
Profit (loss)	(3,846)	9,111
Profit (loss) attributable to non-controlling interests	(1,585)	159
Profit (loss) attributable to owners of parent	(2,261)	8,951

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit (loss)	(3,846)	9,111
Other comprehensive income		
Valuation difference on available-for-sale securities	(12,546)	(6,394)
Deferred gains or losses on hedges	25	(2)
Foreign currency translation adjustment	(5,608)	(12)
Remeasurements of defined benefit plans, net of tax	(7)	(51)
Share of other comprehensive income of entities accounted for using equity method	(145)	(50)
Total other comprehensive income	(18,283)	(6,512)
Comprehensive income	(22,130)	2,599
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(20,402)	2,529
Comprehensive income attributable to non- controlling interests	(1,727)	70

(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.

(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) 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 first 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. Supplemental information

Status of production and sales

(1) Production

		Three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)	Three months ended June 30, 2019 (April 1, 2019 – June 30, 2019)	(Reference) Fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)
Oil and gas	Crude oil (kl)	278,551 (214,383)	296,229 (219,134)	1,157,037 (892,535)
	Natural gas (thousand m ³)	291,660 (136,210)	272,743 (109,938)	1,170,457 (488,436)
	LNG (t)	2,032	1,752	5,600
	Bitumen (kl)	167,674 (167,674)	250,330 (250,330)	812,720 (812,720)

- 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

		Three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)		Three months ended June 30, 2019 (April 1, 2019 – June 30, 2019)		(Reference) Fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)	
		Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)
Oil and gas	Crude oil (kl)	468,426	23,627	891,097	42,717	1,888,653	94,579
	Natural gas (thousand m ³)	406,216	13,845	375,998	15,573	1,731,141	67,820
	LNG (t)	41,146	2,898	111,126	7,501	322,331	22,913
	Diluted bitumen (kl)	240,541	5,436	402,024	10,689	1,176,091	30,116
Subtotal			45,807		76,480		215,429
Contract services			1,178		6,315		7,342
Other businesses	Oil products /merchandise		9,383		9,188		39,820
	Others		1,254		1,268		5,387
Subtotal			10,637		10,456		45,207
Total			57,623		93,252		267,980

- 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.