

Consolidated Financial Results for the Three Months Ended June 30, 2020 <under Japanese GAAP>

August 11, 2020

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 commence dividend payments: –
 Scheduled date to file Quarterly Report: August 11, 2020
 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, 2020 (April 1, 2020 – June 30, 2020)

(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, 2020	51,018	(45.3)	(5,250)	–	(9,575)	–	(9,536)	–
June 30, 2019	93,252	61.8	4,617	–	8,909	–	8,951	–

Note: Comprehensive income: Three months ended June 30, 2020: (7,425) million yen (–%)
 Three months ended June 30, 2019: 2,599 million yen (–%)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2020	(166.86)		–	
June 30, 2019	156.63		–	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of June 30, 2020	620,390		430,210		63.4	
As of March 31, 2020	627,132		440,157		64.2	

Reference: Equity As of June 30, 2020: 393,189 million yen As of March 31, 2020: 402,706 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, 2020	–	25.00	–	25.00	50.00
Fiscal year ending March 31, 2021	–				
Fiscal year ending March 31, 2021 (Forecast)		25.00	–	25.00	50.00

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

3. Consolidated financial forecasts for the fiscal year ending March 31, 2021 (April 1, 2020 – March 31, 2021)
(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, 2021	219,923	(31.0)	(7,763)	–	(5,429)	–	(6,517)	–	(114.03)

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, 2020 57,154,776 shares

As of March 31, 2020 57,154,776 shares

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

As of June 30, 2020 2,336 shares

As of March 31, 2020 2,303 shares

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

Three months ended June 30, 2020 57,152,444 shares

Three months ended June 30, 2019 57,152,569 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, 2020” 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, 2020

(1) Explanation of operating results

During the three months ended June 30, 2020, net sales was ¥51,018 million, a decrease of ¥42,233 million (-45.3%) year on year. Gross profit was ¥2,399 million, a decrease of ¥10,040 million (-80.7%) year on year. Major factors behind the year-on-year decreases for net sales and gross profit were decreases in sales volume and sale price of crude oil from Garraf project in Iraq as well as those of crude oil and natural gas in Japan, and a decline in diluted bitumen sales.

Exploration expenses was ¥206 million, a decrease of ¥10 million (-5.0%) year on year. Selling, general and administrative expenses was ¥7,443 million, a decrease of ¥162 million (-2.1%) year on year. As a result, operating profit deteriorated by ¥9,867 million year on year to an operating loss of ¥5,250 million (operating profit of ¥4,617 million in the same period of the previous fiscal year).

Ordinary profit deteriorated by ¥18,484 million year on year to an ordinary loss of ¥9,575 million (ordinary profit of ¥8,909 million in the same period of the previous fiscal year), due mainly to the turnaround from foreign exchange gains to foreign exchange losses.

Profit before income taxes deteriorated by ¥18,483 million year on year to a loss before income taxes of ¥9,578 million (profit before income taxes of ¥8,905 million in the same period of the previous fiscal year). Profit attributable to owners of parent deteriorated by ¥18,488 million year on year to a loss attributable to owners of parent of ¥9,536 million (profit attributable to owners of parent of ¥8,951 million in the same period of the previous fiscal year).

Below is a breakdown of net sales.

(i) E&P Business

Net sales from the E&P Business came to ¥22,904 million, a decrease of ¥31,228 million (-57.7%) year on year. This was mainly the result of decreased sales volumes and sales prices of crude oil, natural gas (overseas) and diluted bitumen.

(ii) Infrastructure/Utility Business

Net sales from the Infrastructure/Utility Business came to ¥20,997 million, a decrease of ¥2,174 million (-9.4%) year on year. This was mainly the result of decreased sales volumes and sales prices of natural gas (Japan) and liquefied natural gas (LNG), despite the sales of electricity with the commencement of commercial operations of the No. 1 Unit of Fukushima Natural Gas Power Plant.

(iii) Other Businesses

Net sales from other businesses, such as the contract services (drilling and geological surveys, etc.), sale of oil products, including liquefied petroleum gas (LPG), fuel oil and the like, as well as other subcontracted tasks, came to ¥7,116 million, a decrease of ¥8,830 million (-55.4%) year on year.

(2) Explanation of financial position

At the end of the first quarter, total assets decreased by ¥6,742 million from the previous fiscal year-end to ¥620,390 million.

Current assets decreased by ¥11,387 million from the previous fiscal year-end, mainly due to decreases in cash and deposits, and notes and accounts receivable - trade. Non-current assets increased by ¥4,645 million from the previous fiscal year-end. This was mainly due to a rise in market values in investment securities and an increase in recoverable accounts included in other investments and other assets, despite a decrease in property, plant and equipment due to the effect of foreign exchange.

Liabilities increased by ¥3,204 million from the previous fiscal year-end to ¥190,179 million.

Current liabilities increased by ¥702 million from the previous fiscal year-end. This was mainly due to an increase in notes and accounts payable - trade. Non-current liabilities increased by ¥2,501 million from the previous fiscal year-end. This was mainly due to an increase in deferred tax liabilities resulting from the above-mentioned rise in market values of investment securities.

Net assets decreased by ¥9,946 million from the previous fiscal year-end to ¥430,210 million.

The main factor was a decrease in retained earnings, despite an increase in valuation difference on available-for-sale securities.

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

The consolidated financial forecasts for the fiscal year ending March 31, 2021 have been revised from the forecasts announced on May 14, 2020.

Please refer to the “Notice of Financial Forecasts Revision” released on August 11, 2020, 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, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	160,077	155,037
Notes and accounts receivable - trade	27,510	23,258
Securities	4,000	4,000
Merchandise and finished goods	5,223	4,052
Work in process	167	755
Raw materials and supplies	11,141	9,215
Other	4,966	5,378
Allowance for doubtful accounts	(31)	(30)
Total current assets	213,054	201,666
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	173,682	170,101
Other, net	120,355	118,323
Total property, plant and equipment	294,038	288,424
Intangible assets		
Other	6,823	6,644
Total intangible assets	6,823	6,644
Investments and other assets		
Investment securities	88,922	96,070
Other	25,052	28,257
Allowance for doubtful accounts	(44)	(44)
Allowance for overseas investment loss	(715)	(629)
Total investments and other assets	113,216	123,654
Total non-current assets	414,078	418,723
Total assets	627,132	620,390

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,237	13,137
Provisions	555	590
Other	22,945	22,712
Total current liabilities	35,738	36,440
Non-current liabilities		
Long-term borrowings	118,774	118,309
Deferred tax liabilities	9,878	11,531
Retirement benefit liability	3,528	3,391
Provisions	798	591
Asset retirement obligations	15,432	15,327
Other	2,824	4,587
Total non-current liabilities	151,236	153,738
Total liabilities	186,975	190,179
Net assets		
Shareholders' equity		
Share capital	14,288	14,288
Retained earnings	350,934	339,057
Treasury shares	(11)	(11)
Total shareholders' equity	365,212	353,334
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,061	37,872
Deferred gains or losses on hedges	181	(1,272)
Foreign currency translation adjustment	3,494	2,540
Remeasurements of defined benefit plans	756	713
Total accumulated other comprehensive income	37,494	39,854
Non-controlling interests	37,450	37,021
Total net assets	440,157	430,210
Total liabilities and net assets	627,132	620,390

(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, 2019	Three months ended June 30, 2020
Net sales	93,252	51,018
Cost of sales	80,812	48,619
Gross profit	12,440	2,399
Exploration expenses	217	206
Selling, general and administrative expenses	7,605	7,443
Operating profit (loss)	4,617	(5,250)
Non-operating income		
Interest income	307	216
Dividend income	1,649	49
Share of profit of entities accounted for using equity method	2,390	2,116
Other	1,309	197
Total non-operating income	5,657	2,579
Non-operating expenses		
Interest expenses	1,237	972
Foreign exchange losses	–	5,809
Other	127	122
Total non-operating expenses	1,365	6,904
Ordinary profit (loss)	8,909	(9,575)
Extraordinary losses		
Loss on sales of non-current assets	0	–
Loss on retirement of non-current assets	3	2
Other	–	0
Total extraordinary losses	4	3
Profit (loss) before income taxes	8,905	(9,578)
Income taxes	(206)	173
Profit (loss)	9,111	(9,752)
Profit (loss) attributable to non-controlling interests	159	(215)
Profit (loss) attributable to owners of parent	8,951	(9,536)

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit (loss)	9,111	(9,752)
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,394)	4,810
Deferred gains or losses on hedges	(2)	(65)
Foreign currency translation adjustment	(12)	(1,049)
Remeasurements of defined benefit plans, net of tax	(51)	(42)
Share of other comprehensive income of entities accounted for using equity method	(50)	(1,325)
Total other comprehensive income	(6,512)	2,326
Comprehensive income	2,599	(7,425)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,529	(7,176)
Comprehensive income attributable to non- controlling interests	70	(248)

(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

Effective the three months ended June 30, 2020, Fukushima Gas Power Co., Ltd., an affiliate of the Company, became an equity method affiliate of the Company due to its increased material significance following the launch of its power business upon the start of commercial operations of the Fukushima Natural Gas Power Plant in April 2020.

(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.

(Additional information)

Financial covenants

A part of loans from financial institutions to JAPEX Montney Ltd., a consolidated subsidiary of the Company, amounting to ¥29,492 million includes certain financial covenants clauses. JAPEX Montney Ltd. has been breaching the financial covenants clauses as it has been in a state of insolvency. However, creditor financial institutions have agreed to suspend execution of their rights in relation to an acceleration clause until March 2021.

Accounting estimates in connection with the spread of novel coronavirus disease (COVID-19)

The spread of COVID-19 infection is still expanding as of the end of the first quarter and domestic and overseas economic activities have been considerably stagnant due to restriction on movement including stay-at-home request and others. This situation poses challenges in coming up with forecasts given uncertainties particularly with respect to not knowing how the virus might spread going forward or when it might let up. Nevertheless, the Company deems that the situation is likely to improve incrementally after a certain period.

In terms of how the pandemic has affected projects both in Japan and abroad, development and production operations at the Garraf Oil Field in the south of the Republic of Iraq were temporarily suspended from March 16, 2020, but subsequently resumed production operations on July 21. Meanwhile, although the virus has not markedly affected other projects as of yet, it may cause delays and otherwise impact other projects as has been the case with the Garraf Project, due to restrictions imposed on movement of people, movement of objects, and use of services.

This situation has affected sales volumes of crude oil, natural gas, diluted bitumen, and electricity, in that sales volume of domestic natural gas has decreased by 6.8% year on year to 248 million cubic meters during the three months ended June 30, 2020. The Company deems that its sales volume will recover to previous levels in a manner that aligns with resumption of economic activity, but it may take some time for demand to recover with respect to certain customers.

During the three months ended June 30, 2020, the Company has not encountered any significant decreases in sales volumes in relation to COVID-19, aside from Garraf crude oil and domestic natural gas.

Moreover, whereas the crude oil price recovered to about US\$40 per barrel as a result of oil producing countries having implemented a series of coordinated production cuts beginning in May, the Company expects the price to remain at its current level during the fiscal year ending March 31, 2021, given that the recovery in prices has lacked momentum amid a scenario of sluggish energy demand due to ramifications

of the COVID-19 pandemic. The price is likely to subsequently mount a gradual recovery over a certain period of time, thereby returning to levels that had persisted prior to the spread of COVID-19. Meanwhile, a scenario involving a prolonged COVID-19 pandemic extending beyond the Company's assumptions would suggest that diminished mobility is likely become a constant, thereby giving rise to the possibility of irreversible structural changes in various areas encompassing people's lifestyles, issues with respect to work arrangements and employment, energy demand, and environmental concerns. Should assumptions change under such circumstances, the Company has options involving impairment of non-current assets and recoverability of deferred tax assets with respect to accounting estimates of high uncertainty. With respect to making such judgments, these accounting items are largely dependent on estimates of future revenue and cash flows, such that the JAPEX Group is likely to generate from its primary business activities. Accordingly, possibilities may involve recognition of impairment loss and reversal of deferred tax assets with respect to non-current assets listed on the consolidated balance sheet in the event that forecasts project further decreases in such revenue and cash flows brought about by declining sales prices or decreases in sales volume.

(Significant subsequent events)

Resumption of production operations at the Garraf Oil Field in the south of the Republic of Iraq

The Company's consolidated subsidiary, Japex Garraf Ltd., participates in the Garraf Oil Field development and production projects (30% participating interest) in the south of the Republic of Iraq.

Following the spread of COVID-19, as a precautionary measure to ensure the health and safety of employees from March 16, 2020, all expatriates had been evacuated from the country, necessitating the suspension of development and production operations. However, on July 21, production operations were resumed at an average production volume of approximately 50,000 barrels per day.

The Garraf Oil Field started crude oil production in August 2013. The average daily production volume for 2019, the most recent year, was approximately 96,000 barrels.

3. Supplemental information

Status of production and sales

(1) Production

		Three months ended June 30, 2019 (April 1, 2019 – June 30, 2019)	Three months ended June 30, 2020 (April 1, 2020 – June 30, 2020)	(Reference) Fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)
E&P Business	Crude oil (kl)	296,229 (219,134)	272,427 (199,944)	1,215,690 (913,298)
	Natural gas (thousand m ³)	272,743 (109,938)	246,935 (112,222)	1,083,862 (434,194)
	Bitumen (kl)	250,330 (250,330)	245,845 (245,845)	1,130,169 (1,130,169)
Infrastruc- ture/ Utility Business	LNG (t)	1,752	1,589	4,405
	Electricity (thousand kWh)	1,019	356,989	3,049

- 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.
 4. "Electricity," in addition to the solar power plant (mega solar) on the grounds of the Hokkaido District Office, includes the electricity generated by Fukushima Natural Gas Power Plant, which started commercial operations from the first three months ended June 30, 2020.

(2) Sales

		Three months ended June 30, 2019 (April 1, 2019 – June 30, 2019)		Three months ended June 30, 2020 (April 1, 2020 – June 30, 2020)		(Reference) Fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)	
		Sales volume	Net sales (Millions of yen)	Sales volume	Net sales (Millions of yen)	Sales volume	Net sales (Millions of yen)
E&P Business	Crude oil (kl)	891,097	42,717	687,671	15,936	2,924,245	128,152
	Diluted bitumen (kl)	402,024	10,689	410,100	6,258	1,639,689	45,025
	Natural gas (overseas) (thousand m ³)	108,898	726	111,347	709	431,147	2,265
	Subtotal		54,133		22,904		175,443
Infrastruc- ture/Utility Business	Natural gas (Japan) (thousand m ³)	267,100	14,846	248,948	12,798	1,268,448	64,965
	LNG (t)	111,126	7,501	53,533	3,597	273,312	19,395
	Electricity (thousand kWh)	1,019	40	448,461	3,493	110,167	974
	Others		783		1,108		3,353
Subtotal		23,171		20,997		88,688	
Other businesses	Contract Services		6,315		641		15,003
	Oil products /merchandise		9,188		6,029		37,502
	Others		443		446		2,184
Subtotal		15,947		7,116		54,690	
Total			93,252		51,018		318,822

- Notes: 1. “Crude oil” includes crude oil that the Group produces in oil fields and the crude oil purchased from other companies.
2. Diluted bitumen is bitumen diluted by ultra-light crude oil for pipeline transportation.
3. “Natural gas (Japan)” of the Infrastructure/Utility Business refers to gas supplied in Japan via pipeline and comprises the total of natural gas produced in Japan and LNG vaporized gas. Natural gas (Japan) is classified under the Infrastructure/Utility Business, since both natural gas produced in Japan and LNG vaporized gas are sold together by the Company’s supply network, which consists of the natural gas fields in Japan and the LNG terminals that vaporize gas linked by a pipeline network.
4. “Others” of the Infrastructure/Utility Business includes contracted transportation of natural gas and contracted vaporization of LNG used for power plant fuel.
5. Under the Other businesses, “Oil products/merchandise” includes liquefied petroleum gas (LPG), fuel oil, gas oil and kerosene, and “Others” includes other subcontracted tasks.
6. Monetary amounts in the table do not include consumption taxes.