

Consolidated Financial Results for the Six Months Ended September 30, 2020 <under Japanese GAAP>

November 10, 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
 URL: <https://www.japex.co.jp/>
 Representative: Masahiro Fujita, Representative Director and President
 Inquiries: Masaru Asai, General Manager, Corporate Communication Office
 TEL: +81-3-6268-7110 (from overseas)

Scheduled date to commence dividend payments: December 14, 2020

Scheduled date to file Quarterly Report: November 11, 2020

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, 2020

(April 1, 2020 – September 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	%
Six months ended September 30, 2020	98,127	(39.6)	(6,271)	–	(6,837)	–	(6,975)	–
September 30, 2019	162,346	41.0	7,730	–	13,636	954.4	12,069	395.9

Note: Comprehensive income: Six months ended September 30, 2020: (15,014) million yen (–%)
 Six months ended September 30, 2019: 4,625 million yen (-36.1%)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2020	(122.08)		–	
September 30, 2019	211.19		–	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of September 30, 2020	600,123		422,481		64.3	
As of March 31, 2020	627,132		440,157		64.2	

Reference: Equity As of September 30, 2020: 385,807 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	–	25.00			
Fiscal year ending March 31, 2021 (Forecast)			–	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	208,075	(34.7)	(5,378)	–	(2,462)	–	(1,900)	–	(33.29)

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: 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 September 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 September 30, 2020	79,936 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)

Six months ended September 30, 2020	57,137,826 shares
Six months ended September 30, 2019	57,152,562 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, 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 six months ended September 30, 2020

(1) Explanation of operating results

During the six months ended September 30, 2020, net sales was ¥98,127 million, a decrease of ¥64,219 million (-39.6%) year on year. Gross profit was ¥8,884 million, a decrease of ¥14,217 million (-61.5%) year on year. Major factors behind the year-on-year decreases for net sales and gross profit were decreases in the sales volume and sales price of crude oil from the Garraf Oil Field in the southern part of the Republic of Iraq as well as those of crude oil and natural gas in Japan, and a decline in diluted bitumen sales.

Exploration expenses was ¥387 million, an increase of ¥29 million (+8.1%) year on year. Selling, general and administrative expenses was ¥14,769 million, a decrease of ¥244 million (-1.6%) year on year. As a result, operating profit deteriorated by ¥14,001 million year on year to an operating loss of ¥6,271 million (operating profit of ¥7,730 million in the same period of the previous fiscal year).

Ordinary profit deteriorated by ¥20,473 million year on year to an ordinary loss of ¥6,837 million (ordinary profit of ¥13,636 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 ¥20,469 million year on year to a loss before income taxes of ¥6,852 million (profit before income taxes of ¥13,617 million in the same period of the previous fiscal year). Profit attributable to owners of parent deteriorated by ¥19,045 million year on year to a loss attributable to owners of parent of ¥6,975 million (profit attributable to owners of parent of ¥12,069 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 ¥37,547 million, a decrease of ¥55,870 million (-59.8%) year on year. This was mainly the result of decreased sales volumes and sales prices of crude oil and diluted bitumen.

(ii) Infrastructure/Utility Business

Net sales from the Infrastructure/Utility Business came to ¥43,982 million, an increase of ¥3,679 million (+9.1%) year on year. This was mainly the result of the full-scale inclusion of sales of electricity with the commencement of commercial operations at the Fukushima Natural Gas Power Plant of the No. 2 Unit, which began operations in August 2020, in addition to the No. 1 Unit, which began operations in April, despite decreased sales volumes and sales prices of natural gas (Japan) and liquefied natural gas (LNG).

(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 ¥16,597 million, a decrease of ¥12,028 million (-42.0%) year on year.

(2) Explanation of financial position

At the end of the second quarter, total assets decreased by ¥27,009 million from the previous fiscal year-end to ¥600,123 million.

Current assets decreased by ¥23,356 million from the previous fiscal year-end, mainly due to decreases in cash and deposits, and notes and accounts receivable - trade. Non-current assets decreased by ¥3,653 million from the previous fiscal year-end due to a decrease in investment securities resulting from the fall in market values and a decrease in property, plant and equipment resulting from the progress in the depreciation, despite an increase in recoverable accounts included in other under investments and other assets, with investment being made.

Liabilities decreased by ¥9,333 million from the previous fiscal year-end to ¥177,642 million.

Current liabilities decreased by ¥1,532 million from the previous fiscal year-end. This was mainly due to a decrease in notes and accounts payable - trade. Non-current liabilities decreased by ¥7,800 million from the previous fiscal year-end. This was mainly due to a decrease in deferred tax liabilities resulting from the above-mentioned fall in market values of investment securities and a decrease in long-term borrowings resulting from the impact of fluctuation in foreign exchange rates and the reclassification of borrowings with repayments due in one year or less to current liabilities.

Net assets decreased by ¥17,676 million from the previous fiscal year-end to ¥422,481 million.

The main factors were decreases in retained earnings and 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 August 11, 2020.

Please refer to the “Notice of Financial Forecasts Revision” released on November 10, 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 September 30, 2020
Assets		
Current assets		
Cash and deposits	160,077	148,212
Notes and accounts receivable - trade	27,510	20,986
Securities	4,000	4,000
Merchandise and finished goods	5,223	4,320
Work in process	167	375
Raw materials and supplies	11,141	7,159
Other	4,966	4,674
Allowance for doubtful accounts	(31)	(30)
Total current assets	213,054	189,697
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	173,682	167,819
Other, net	120,355	118,991
Total property, plant and equipment	294,038	286,810
Intangible assets		
Other	6,823	6,509
Total intangible assets	6,823	6,509
Investments and other assets		
Investment securities	88,922	84,312
Other	25,052	33,380
Allowance for doubtful accounts	(44)	(44)
Allowance for overseas investment loss	(715)	(544)
Total investments and other assets	113,216	117,104
Total non-current assets	414,078	410,425
Total assets	627,132	600,123

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,237	9,687
Provisions	555	597
Other	22,945	23,920
Total current liabilities	35,738	34,205
Non-current liabilities		
Long-term borrowings	118,774	110,897
Deferred tax liabilities	9,878	8,182
Retirement benefit liability	3,528	3,382
Provisions	798	567
Asset retirement obligations	15,432	15,674
Other	2,824	4,732
Total non-current liabilities	151,236	143,436
Total liabilities	186,975	177,642
Net assets		
Shareholders' equity		
Share capital	14,288	14,288
Retained earnings	350,934	341,618
Treasury shares	(11)	(151)
Total shareholders' equity	365,212	355,755
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,061	29,526
Deferred gains or losses on hedges	181	(1,601)
Foreign currency translation adjustment	3,494	1,455
Remeasurements of defined benefit plans	756	671
Total accumulated other comprehensive income	37,494	30,052
Non-controlling interests	37,450	36,673
Total net assets	440,157	422,481
Total liabilities and net assets	627,132	600,123

(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, 2019	Six months ended September 30, 2020
Net sales	162,346	98,127
Cost of sales	139,244	89,242
Gross profit	23,101	8,884
Exploration expenses	358	387
Selling, general and administrative expenses	15,013	14,769
Operating profit (loss)	7,730	(6,271)
Non-operating income		
Interest income	584	334
Dividend income	1,658	1,332
Share of profit of entities accounted for using equity method	4,405	3,366
Other	1,934	431
Total non-operating income	8,584	5,465
Non-operating expenses		
Interest expenses	2,433	1,782
Foreign exchange losses	–	3,971
Other	244	277
Total non-operating expenses	2,677	6,031
Ordinary profit (loss)	13,636	(6,837)
Extraordinary losses		
Loss on retirement of non-current assets	15	14
Other	3	0
Total extraordinary losses	19	15
Profit (loss) before income taxes	13,617	(6,852)
Income taxes	1,512	636
Profit (loss)	12,104	(7,489)
Profit (loss) attributable to non-controlling interests	34	(514)
Profit (loss) attributable to owners of parent	12,069	(6,975)

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Profit (loss)	12,104	(7,489)
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,394)	(3,536)
Deferred gains or losses on hedges	12	(183)
Foreign currency translation adjustment	(2,827)	(2,245)
Remeasurements of defined benefit plans, net of tax	(103)	(85)
Share of other comprehensive income of entities accounted for using equity method	(164)	(1,472)
Total other comprehensive income	(7,478)	(7,524)
Comprehensive income	4,625	(15,014)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,772	(14,417)
Comprehensive income attributable to non- controlling interests	(146)	(597)

(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 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.

(Additional information)

Financial covenants

A part of loans from financial institutions to JAPEX Montney Ltd., a consolidated subsidiary of the Company, amounting to ¥29,197 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)

Amid prolonged stagnation seen in economic activities in Japan and overseas, the dissipation of COVID-19 remains uncertain as of the end of the second quarter. Also, the timing COVID-19 dissipates is still unknown and difficult to be predicted, but the Company expects that the situation will gradually recover as time goes by.

The Garraf Oil Field in the southern part of the Republic of Iraq temporarily suspended its development and production operation due to the impact of COVID-19, and resumed its production operation from July this year. However, due to restrictions on transfer and other factors, the additional development to increase the production volume to a scale of 230,000 barrels a day, which was expected at the end of 2020, is likely to be delayed to later years. Moreover, a schedule for the development in the UK North Sea's Seagull field, aiming for production commencement by the end of 2021, is subject to change.

Concerning the impact on sales volumes of crude oil, natural gas, diluted bitumen, electricity, etc. during the six months ended September 30, 2020, the sales volume of the crude oil from the above-mentioned Garraf project decreased by 454,000 kl (-74.7%) year on year to 154,000 kl. In the oil sand development business in Canada, the sales volume of diluted bitumen decreased by 224,000 kl (-26.8%) year on year to 613,000 kl due to the curbing of production in response to the deteriorated business environment. In Japan, the sales volume of natural gas declined by 12 million cubic meters (-2.4%) year on year to 520 million cubic meters, due to the sluggish economic activity.

The crude oil price plummeted towards the end of April with the energy demand in the doldrums; however, the price has recovered subsequently with the current price hovering around at US\$40 per barrel as a result of oil-producing countries having implemented a series of coordinated production cuts. The Company expects the crude oil price to remain at the current level throughout the fiscal year ending March 31, 2021, and regain its momentum to hit the pre-COVID-19 pandemic level after some time.

Meanwhile, a scenario involving a prolonged COVID-19 pandemic extending beyond the Company's assumptions would suggest that diminished mobility is likely to become a constant, thereby giving rise to the possibility of irreversible structural changes in various areas such as 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.

3. Supplemental information

Status of production and sales

(1) Production

		Six months ended September 30, 2019 (April 1, 2019 – September 30, 2019)	Six months ended September 30, 2020 (April 1, 2020 – September 30, 2020)	(Reference) Fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)
E&P Business	Crude oil (kl)	547,580 (397,084)	369,134 (218,172)	1,215,690 (913,298)
	Natural gas (thousand m ³)	530,853 (214,469)	482,305 (231,341)	1,083,862 (434,194)
	Bitumen (kl)	561,946 (561,946)	393,973 (393,973)	1,130,169 (1,130,169)
Infrastruc- ture/ Utility Business	LNG (t)	3,891	3,012	4,405
	Electricity (thousand kWh)	1,802	1,028,039	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 fiscal year ending March 31, 2021.

(2) Sales

		Six months ended September 30, 2019 (April 1, 2019 – September 30, 2019)		Six months ended September 30, 2020 (April 1, 2020 – September 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)	1,469,861	68,902	1,126,289	28,452	2,924,245	128,152
	Diluted bitumen (kl)	838,297	23,385	613,749	7,757	1,639,689	45,025
	Natural gas (overseas) (thousand m ³)	212,898	1,129	229,406	1,336	431,147	2,265
	Subtotal		93,417		37,547		175,443
Infrastruc- ture/Utility Business	Natural gas (Japan) (thousand m ³)	533,739	28,232	520,790	25,059	1,268,448	64,965
	LNG (t)	149,179	10,319	94,968	6,475	273,312	19,395
	Electricity (thousand kWh)	1,802	72	1,274,132	10,042	110,167	974
	Others		1,679		2,405		3,353
Subtotal		40,303		43,982		88,688	
Other businesses	Contract Services		10,474		3,447		15,003
	Oil products /merchandise		17,168		12,254		37,502
	Others		981		895		2,184
Subtotal		28,625		16,597		54,690	
Total			162,346		98,127		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 regasified LNG. 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 commissioned 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.